April 2003
Corrected: July 2003
IMF Country Report No. 03/101

Argentina: Request for Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Argentina

In the context of the request for Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on **January 16, 2003,** the officials of Argentina on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 17, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the **views of the Executive Board as expressed during its January 24, 2003 discussion** of the staff report that completed the request.

- a statement by the Executive Director for Argentina.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Washington, D.C.

INTERNATIONAL MONETARY FUND

ARGENTINA

Request for Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Anoop Singh and G. Russell Kincaid

January 17, 2003

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I. Introduction[1]

1. **The Argentine authorities have prepared a short-term economic program to provide a policy framework for the political transition.** They have requested that it be supported by a Stand-By Arrangement (SBA) in the credit tranches from the Fund in an amount of SDR 2.17 billion, which is sufficient to cover obligations (including expected charges) falling due during the period January–August 2003. In addition, they have requested that all repurchase expectations arising during the period of the proposed arrangement be extended. The economic program focuses on core fiscal, monetary, and banking policies for the first half of 2003. The authorities also expect to make progress in preparation of tax and intergovernmental relations reforms, enhancing application of the insolvency law, reviewing the financial situation of privatized utilities, and collaborating with foreign creditors.[2] Fund support would unlock essential social sector lending from the World Bank and the Inter-American Development Bank (IDB), allow Argentina to clear arrears to the World Bank and the IDB, and to meet debt service payments falling due to the international financial institutions (IFIs). During the period of the proposed arrangement, the exposure of the IFIs to Argentina would increase by about US$1.3 billion, largely reflecting the financing of interest payments and charges.

2. **It is the expectation that the transitional program will be succeeded by a multi-year Fund arrangement with the new government**—to anchor IFI support for a more comprehensive economic program that is needed for Argentina to recover from the present crisis. The political calendar anticipates presidential elections in April, with a new government expected to take office in late May. There are clear risks even to the short-term transitional program from the forthcoming political events. These risks were discussed in the staff report for the Article IV consultation (EBS/02/214, 12/17/2002) and are reviewed again briefly in this paper.

II. Policies for the Transitional Program

A. Macroeconomic Framework

3. **The proposed macroeconomic framework follows closely the 2003 outlook discussed in the staff report for the Article IV consultation.** The authorities expect growth to resume during 2003 and inflation to be held below 35 percent (Tables 1–2 and Text Table A). The large external current account surplus is projected to decline somewhat,

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[1] The mission (January 9–16, 2003) comprised Messrs. Dodsworth (Head), Thornton, Ramírez, and Ms. Cebotari (all WHD), and Messrs. Hoelscher (MAE), Hviding (PDR), and Roaf (ICM). The mission was assisted by Mr. Cubeddu, the Resident Representative in Buenos Aires.

[2] Attachments I and II contain the letter of intent and memorandum of economic policies, respectively; and Appendix I contains the technical memorandum of understanding.

mainly reflecting a recovery in imports, and gross reserves are projected to remain unchanged at about US$10½ billion by the end of the arrangement.

Text Table A. Macroeconomic Framework, 2002–03

	Est. 2002	2003 H1	2003 H2	2003 Year
Real GDP growth (in percent) 1/	-11.0	2.2	1.8	2.0
Inflation (e.o.p., in percent) 1/	41.0	39.0	35.0	35.0
Consolidated public sector primary balance				
(In percent of GDP)	0.0	2.4	2.5	2.5
Current account				
(In billions of U.S. dollars)	8.8	3.6	2.9	6.5
(In percent of GDP)	8.2	6.1	4.4	5.3
Gross international reserves				
(In billions of U.S. dollars)	10.5	10.5	10.5	10.5

1/ Year-on-year percent change.

4. **Achieving the macroeconomic objectives will depend upon a number of factors.** Monetary and fiscal policies lie at the core of the program but will need to be supported by consistency and coherence in other policies—especially a banking strategy—and much improved legal certainty. The success of the program will depend upon maintaining fiscal discipline and containing future shocks and capital outflows. Starting a sustainable recovery will need new credit flows and a gradual return of confidence, which could be delayed until there is a stronger political consensus for orderly reforms. Estimates of private Argentine capital abroad range well over US$100 billion and suggest the kind of support for the economy that could materialize with confidence in the policy framework.

B. Monetary and Fiscal Policies under the Program

5. **The monetary program is centered around maintaining the adjusted monetary base broadly at its end-December 2002 level through mid-2003 (Text Table B and Table 3).**[3] Base money rose quite rapidly in the final quarter of 2002, only partly for seasonal reasons. The authorities' program builds in a further rise during the first quarter of 2003 reflecting the fiscal gap (and its front-loaded phasing), with a very small reduction starting in April. The authorities believe that it would be difficult to flatten the trajectory of base money given the large sterilization effort already needed to reach their target, which would involve a significant increase in the stock of central bank bonds during the program. In the staff's view, a more conservative monetary program is recommended. In particular, it will be important to reabsorb the seasonal increase in base money that occurred at the end of the year.

[3] The adjusted monetary base includes quasi-monies in circulation.

Text Table B. Monetary Program

(In billions of Arg$)

	2002		2003					
	Sep.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Net international reserves 1/	-18.4	-13.4	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Net domestic assets	48.5	50.1	52.3	52.8	52.7	52.0	52.2	51.4
Monetary base	30.1	36.7	37.3	37.8	37.7	37.0	37.2	36.4
Memorandum item:								
Net international reserves								
in billions of U.S. dollars 1/	-4.8	-3.5	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9

1/ Program target, before net inflows from IFIs; evaluated at the program accounting rate of US$1=3.85 Arg$ and SDR 1=US$1.32408.

6. **The rationale for developing a monetary-based anchor was discussed in the staff report for the 2002 Article IV consultation**. The authorities are encouraged by the recent stability—and rise—of overall bank deposits and believe that a sufficiently firm anchor already prevails to underpin the monetary program. Operationally, they will seek to control the monetary base by acting on net domestic assets of the central bank and limiting sales of foreign exchange reserves for intervention—within the framework of a continued flexible exchange rate policy. Given the difficulties in predicting money demand and assessing the monetary overhang, particularly during a period of political transition, the monetary program would be reviewed regularly.

7. **However, as discussed in the recent Article IV report, there are still a number of concerns regarding the credibility of the monetary anchor.** The risks of future deposit withdrawals remain high from court injunctions (*amparos*) and the reprogrammed time deposits to be released in 2003. There are also uncertainties arising from the decision that the supreme court will take regarding the constitutionality of the *pesoization*. In addition, slippages in the fiscal framework may lead to pressures for monetization, and a strong central bank role will be essential. The authorities have discussed with staff contingency measures in the event that new shocks threaten deposit stability. They will be monitoring closely the liquidity situation of banks—among other indicators of pressures on banks.

8. **The fiscal program is centered around securing a consolidated cash primary surplus of about 2½ percent of GDP in 2003** (compared with an estimated balanced outcome for 2002).[4] In passing the budget, Congress approved removal of an expenditure

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[4] If augmented to include debt-financed spending, the primary balance is projected to be in deficit (about 1 percent of GDP) and the overall balance is projected to remain in large deficit (about 17 percent of GDP) in 2003 (Table 4). These balances have deteriorated by 1½ percentage points and 4½ percentage points, respectively, from those shown in the recent staff report for the 2002 Article IV consultation. This reflects: (i) greater debt recognition for compensating banks for the impact of *amparos*; and (ii) the effect of inflation on indexed debt.

contingency, as well as additional spending cuts. However, they also introduced some new spending initiatives, not all of which were vetoed by the President. [5] In addition, some revenue measures proposed by the government were not approved by Congress—specifically the conversion of the fuel tax to an ad valorem basis and the elimination of the income tax exemption on export rebates. These measures will be discussed again by Congress in February 2003. In February, the Congress will also continue discussions regarding the three remaining competitiveness plans. The authorities have now committed to the elimination of all competitiveness plans by end-March 2003. Congressional approval of these measures is necessary for the primary surplus target to be reached and for the fiscal gap to be consistent with the monetary program. The fiscal gap is being covered by central bank credit to government (Table 5).

9. **Provincial adjustment is being achieved through spending controls and administrative reforms.** Provincial adjustment in 2003 is to be underpinned by the bilateral agreements for 2003 that are planned to be ratified by provincial legislatures by mid-May 2003. The staff places the highest importance on early approval and ratification of these bilateral agreements.

10. **Federal government debt is projected to rise by Arg$105 billion (21 percent of GDP) in the first half of 2003.** Only a part of this increase is accounted for by fiscal operations during the period. The main components of the increase are: (i) the assumption of provincial government debt in mid-2002 and other debt recognition (Arg$41 billion); (ii) government support for the financial system, including bonds to compensate for the balance sheet impact of *amparos* and asymmetric *pesoization* and indexation (Arg$17 billion), and the exchange of government bonds for bank deposits (Arg$7 billion); (iii) the effect of inflation on indexed debt (Arg$27 billion); and (iv) the accumulation of interest arrears (Arg$10 billion).

11. **Against the background of the April presidential elections, risks to the fiscal outlook arise from a number of sources:**

- Congress may not approve the revenue measures (US$100 million) needed to achieve the fiscal target, which would almost double the fiscal financing gap (to US$200 million) and the need for central bank financing.
- It may be difficult to accommodate the new congressional spending initiatives that were not vetoed (US$180 million) given that other spending programs are already very compressed.
- Pressures for wage increases and tax forbearance will need to be resisted.

[5] The main new spending initiatives are the temporary reinstatement of a bonus scheme for teachers (US$86 million) and a child nutrition program (US$91 million).

- The potential remains for further slippage in provincial finances, particularly if the bilateral agreements are not ratified on schedule or implemented.
- Meeting policy conditionality to ensure the scheduled flow of IFI disbursements is a risk to the financing of the program.

C. External Financing

12. **The financing of the program is designed to give breathing room until a more comprehensive program with greater political consensus can be developed.** Thus, the IMF, the World Bank, and the IDB have committed to raising their financing flows and avoiding the need for Argentina to make net payments during the program period—as long as the policy program is implemented (Tables 6, 7, and 8). The authorities intend, during this transitional period, to accumulate arrears on phase two debt, but have committed to strengthen the collaborative approach towards restructuring debt held by private creditors. They have initiated contacts with various creditor groups and are in the process of hiring a financial advisor.

13. **The external financing need for the period January–August 2003, after assuming the accumulation of arrears on phase two debt, is estimated at US$11.6 billion** (including to clear arrears to the World Bank and IDB) (Table 9). The authorities are seeking to meet this financing need through new disbursements from the IFIs of US$7.3 billion, and US$3.7 billion of extensions of repurchase expectations to the Fund, for a total of about US$11 billion,[6] broadly equivalent to amounts falling due to them (including interest charges), and a requested rescheduling of all 2002 arrears and amounts falling due to Paris Club creditors (US$0.7 billion). Regarding the Paris Club, an initial meeting to discuss the authorities' request for debt rescheduling was held on January 15. World Bank and IDB lending will be primarily in social sectors. The authorities have committed to clearing promptly arrears to the World Bank and the IDB. The program incorporates financing assurances reviews, together with the three planned program reviews, so that any deviations in financing can be quickly identified and corrective actions taken.

D. Exchange Controls

14. **The authorities have begun to dismantle some of the exchange restrictions and controls introduced during 2002**. Specifically, effective January 16, 2003, Article VIII restrictions have been eliminated in the following areas:

- The prior authorization requirement for external transfers related to interest payments, profit remittances, and dividend payments. In addition, the government is prepared to provide foreign exchange for payments of reinsurance premiums for all transactions that are shown to be legitimate.

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[6] All SDR-denominated data are converted into dollars at the program exchange rate of SDR 1.32408.

- The prior authorization requirement for foreign exchange sales to nonresidents.

15. **All Article VIII restrictions have now been removed other than**: (i) the restriction arising from the freeze on time deposits (the *corralón*); and (ii) the restriction arising from the prior approval (which operates as a de facto prohibition) required on moderate loan amortization payments. The authorities have indicated that they will develop a proposal to modify the latter restriction at the time of the first review of the program. The ceiling on the export receipts surrender requirement to the central bank has been raised to US$1 million.

E. Other Policies

16. **As described in the MEP, the authorities plan to complement core monetary and fiscal policies with the following structural measures:**

- **Implementation of an initial strategy to restructure the banking system**. The authorities are committed to: (i) institutional and legal reforms to strengthen the framework for bank resolution; (ii) revisions to prudential regulations; (iii) preliminary steps toward a reform of public banks; (iv) steps to enhance the autonomy of the central bank; and (v) strengthened bank diagnostics and bank resolution.

- **Preparing draft legislation on some of the structural measures needed to strengthen the fiscal position over the medium term**. This includes tax reform aimed at broadening the tax base, and the reform of intergovernmental relations to encourage fiscal discipline in the provinces.

- **Avoidance of new restrictions on creditor rights**. In this area, the authorities are committed to ensuring that there would be no new involuntary restraints on creditor rights, thereby allowing the insolvency law to be fully effective.

17. **The expectation is that the structural policies in the transitional program will be made more comprehensive within a successor program**. The full range of policies needed in these essential areas were presented in the staff papers for the recently concluded Article IV consultation. In particular, the successor government will need to accord priority to: (i) expanding the initial banking strategy to give greater assurances that financial intermediation would be restored; (ii) further liberalizing foreign exchange controls, especially the export receipts surrender requirement; (iii) vigorously promoting corporate restructuring, especially by developing and implementing an effective framework for out-of-court workouts, crucial also for restoring the health of the banking system; (iv) addressing the pricing and regulatory problems of the utility companies;[7] (v) restructuring public debt to

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[7] The authorities will receive a Fund-World Bank mission in February 2003 to analyze the financial position of the utility companies and advise on a revised regulatory framework. The authorities have said that such a framework will need to be implemented by the successor government.

put the public finances on a sustainable basis; and (vi) ensuring legal certainty to rebuild investor confidence.

III. ACCESS AND CAPACITY TO REPAY THE FUND

18. **Access and phasing**: Access of SDR 2.17 billion (154 percent of quota on an annual basis) has been requested. Approval will require use of the exceptional circumstances provision under the Fund's access policy. The requested access equals obligations (including charges) falling due during the period January–August 2003. Thus, Fund exposure would increase during this period by about SDR 393 million (or 19 percent of quota) to SDR 10.94 billion (or 517 percent of quota). It is proposed that all repurchase expectations, which amount to SDR 2.8 billion during the period January to August 2003, be converted to an obligations basis.[8] The phasing of purchases (Table 10) closely mirrors the schedule of obligations falling due. During the remaining period of 2003, US$3.2 billion would fall due to the Fund, and an additional US$2.2 billion to the World Bank and the IDB.

19. **Capacity to repay the Fund**. In the staff's view, the transitional program contains insufficient steps to give confidence to restoring medium-term sustainability and, thus, does not provide a basis for an assessment that Argentina would have the capacity to service its obligations to the Fund (or to comprehensively restructure the debt to private creditors).[9] Enhancing Argentina's capacity to repay the Fund will depend critically on having in place a successor arrangement in support of a sufficiently comprehensive economic program. Meanwhile, the authorities have committed to remain current to the Fund under the program and have requested that disbursements under the arrangement be held in Argentina's SDR account solely for the purpose of the timely honoring of the obligations of Argentina to the Fund. In addition, reserve coverage of debt service to the Fund would remain relatively high (Table 11).

20. **A recent safeguards assessment of the Central Bank of Argentina concluded that:** (i) substantial risks may exist in the system of internal controls; (ii) a more robust financial reporting framework should be developed; and (iii) central bank operational independence from government interference needs strengthening. Recommendations

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[8] The proposed extensions would cover: (i) the last remaining repurchase expectation under the SRF arising on March 9 of SDR 2,091 million; and (ii) the repurchase expectations in the credit tranches which arise during the period of the proposed arrangement as follows: March 20 and June 20 (SDR 198.5 million each), and on April 17, July 17, and August 22 (SDR 95.6 million each). Extension of the SRF repurchase expectations is consistent with the applicable criteria under the SRF. Similarly, the proposed extensions of the repurchase expectations in the credit tranches by one year are consistent with the approved guidelines for this policy.

[9] As outlined in paragraph 17, and in the staff report for the Article IV consultation, a sustainable program would involve more comprehensive policies and fundamental reforms than included in the transitional program.

included two priority measures, one on the publication of the 2001 financial statements, and the other on the strengthening of the controls over the reporting of program data, including verification by the independent central bank controller *(síndico)*. The central bank has recently informed staff that these recommendations have been implemented. Other measures include the adoption of International Accounting Standards (IAS) and elimination of the transfer of unrealized central bank profits to the government. Staff will continue monitoring the implementation of the recommended measures.

IV. Program Monitoring

21. **Three program reviews are envisaged, including financing assurance reviews.** As specified in Table 12 and in the attached Technical Memorandum of Understanding (TMU), performance criteria have been established for January 31, 2003 and March 31, 2003 for central bank net domestic assets and net international reserves, the primary balance of the federal government, the stock of federal government debt, and the stock of debt of the consolidated public sector. Indicative targets in all of these areas have been set for the test dates through June 2003 and, at the first program review, they will be reviewed and converted into performance criteria for May 31, 2003 and June 30, 2003. In addition, there are indicative targets for the overall cash balance of the federal government, the overall balance of the provincial governments, and the adjusted monetary base (adjusted to include quasi-monies). Continuous performance criteria have been established for: (i) the nonaccumulation of arrears to bilateral and multilateral creditors; (ii) the nonissuance of quasi-monies by provincial governments that have signed the bilateral agreements; and (iii) that no statute or other legal instrument will be adopted that provides a means for any involuntary suspension of creditor rights.

22. **Structural performance criteria have been established** on the: (i) congressional approval of the revenue measures needed to reach the primary surplus target; (ii) elimination of remaining competitiveness plans; (iii) signature of the 2003 bilateral agreements by the governors of provinces representing a combined total of at least 80 percent of the 2002 consolidated provincial deficit; (iv) revisions to the bank supervisory and prudential framework; and (v) the announcement of a transitional minimum capital adequacy ratio (Box 1). Structural benchmarks have been established on: (i) the provision to Fund staff of information on provincial government financing with a delay of less than 55 days; (ii) the appointment of an external advisor on public debt restructuring; (iii) the launching of the bidding process for the due diligence and strategic review of the public banks; (iv) the preparation of draft legislation for structural fiscal measures; (v) congressional approval of amendments to the financial institutions law; and (vi) ratification by provincial legislature of the 2003 bilateral agreements.

V. Staff Appraisal

23. **The Argentine authorities hope that, by maintaining macroeconomic stability during the election period, the transitional program will provide a bridge to the successor government that is expected to take office in late May.** The transitional program is viewed by the authorities as a first step to the comprehensive program required to restore fiscal and external viability to Argentina. By maintaining macroeconomic stability during the

election period, the authorities hope that this would create the conditions that would allow the successor government to adopt a comprehensive program.

24. **The transitional program is focused on monetary and fiscal policies, and initial steps for banking reform during the first half of 2003.** The monetary program tries to restrain monetary growth so as not to exacerbate the problem of the monetary overhang that results from the frozen time deposits. In the staff's view, any increase in the monetary base over end–December should be strictly limited until there is greater evidence that the overhang has been addressed. In addition, as pointed out in the staff report for the 2002 Article IV consultation, there are a number of risks that could overwhelm the monetary program—and against which the central bank does not have commensurate instruments. The authorities have committed to consult the Fund on the corrective measures that would be taken were these risks to materialize and result in large deposit outflows. It is not clear, however, that there would be sufficient time and instruments to manage these risks effectively.

25. **The fiscal program is based on maintaining tight control over primary spending and on the absence of any net new financing from the IFIs**. Implementing the fiscal program will be a considerable challenge to the authorities and the expenditure cuts will be difficult to sustain. Risks arise from a number of sources and, were they to materialize, would result in the monetization of the deficit which could quickly overwhelm the monetary program. Risks are highest from the behavior of the provinces, new congressional spending initiatives, and wage pressures—all of which are more difficult to control during an election period. However, there are also considerable risks to achieving the revenue targets of the program; congressional approval of needed revenue measures has still to be secured and there are difficulties in quickly rebuilding a culture of tax compliance. The larger augmented fiscal deficit—compared with the estimates provided in the staff report for the 2002 Article IV consultation—only adds to the challenge of achieving fiscal sustainability that will be faced by the successor government. The staff's present assessment is that addressing this challenge will require augmented primary surpluses in the range of 4–5 percent of GDP over the medium term.

26. **The authorities' program addresses some of the policies in other areas that were presented in the staff report for the 2002 Article IV consultation**. However, a sustainable program will need to include more comprehensive reforms with stronger assurances of implementation, such as further liberalizing foreign exchange and pricing controls (on the privatized utilities), expanding the banking strategy and implementing the reform of the public banks, undertaking structural fiscal reforms aimed at raising the primary surplus to 4–5 percent of GDP over the medium term, making concrete progress on debt restructuring, and rebuilding legal certainty in Argentina. Unless progress is made in all of these areas in the coming months, there would be a very large burden on the successor government.

27. **In the banking system, initial work to assess the solvency of the system has yet to begin**. The steps that would restore some measure of central bank autonomy have also not yet been taken. In a full-fledged program, maintaining an even-handed and transparent approach to bank restructuring—and moving ahead with public bank reforms—would be essential.

28. **The staff places the highest importance on clear steps to reassure investors of legal certainty.** For virtually all of 2002, there have been a number of extreme restrictions on creditor actions, including limitations on foreclosure and other enforcement proceedings. A balanced set of incentives that would apply to creditors and debtors has yet to take hold. Without appropriate incentives for voluntary debt workouts, debt restructuring and credit flows will not develop, and growth will remain absent—further burdening the poor.

29. **The authorities have begun to make contacts with private creditors** and their efforts provide the basis for the initial determination of compliance with the "good faith" criterion under the Fund's policy for lending into arrears. However, these efforts need to be intensified. Preparations for negotiations with creditors are as yet little advanced and a number of creditors continue to complain about the adequacy of the dialogue. The program incorporates further steps to enhance collaboration with creditors and develop the procedural aspects for restructuring.

30. **The staff stresses the importance of adhering closely to the policies in the transitional program.** These initial steps should be developed into a fully sustainable program as soon as possible. A greater political consensus is needed in Argentina for this purpose. Meanwhile, the relief on payments to the IFIs that is afforded by the transitional program should help maintain stability. Close monitoring and collaboration with the staff will be essential to keep the transitional program on course.

31. **Thus, the staff welcomes the development of a transitional program as a first step toward a sustainable and fully comprehensive program that is needed by Argentina**. The staff recommends extension of the repurchase expectations arising during the period of the proposed Stand-By Arrangement.

Box 1. Continuous and Structural Performance Criteria and Structural Benchmarks 1/

I. Performance Criteria

Continuous performance criteria

- Nonaccumulation of arrears to bilateral and multilateral creditors (paragraph 18 of the MEP);
- Nonissuance of quasi-monies by provincial governments that have signed the bilateral agreements (paragraph 11 of the MEP);
- No statute or other legal instrument will be adopted that provides a means for any involuntary suspension of creditors' rights (paragraph 30 of the MEP).

March 14,2003

- Conversion of the fuel tax to an ad-valorem tax and elimination of the income tax exemption on export rebates (paragraph 7 of the MEP);
- Revisions to banking regulations to strengthen the bank supervisory and prudential framework (paragraph 29 of the MEP).
- Signature of the 2003 bilateral agreements by governors of provinces representing a combined total of at least 80 percent of the 2002 consolidated provincial deficit (paragraph 12 of the MEP);

March 31, 2003

- Elimination of the remaining competitiveness plans (paragraph 7 of the MEP);

May 15, 2003

- Announce a transitional minimum capital adequacy ratio (paragraph 29 of the MEP).

II. Structural Benchmarks

Continuous

- Provide Fund staff with monthly information on provincial government financing with a delay of less than 55 days (paragraph 13 of the MEP).

February 28, 2003

- Launch the bidding process for due diligence and strategic review of the public banks (paragraph 29 of the MEP).

March 14, 2003

- Appointment of an external advisor on public debt restructuring (paragraph 27 of the MEP);

May 15, 2003

- Ratification by provincial legislatures of the 2003 bilateral agreements (paragraph 12 of the MEP);
- Preparation of draft legislation for structural fiscal measures (paragraph 24 of the MEP);
- Congressional approval of amendments to the financial institutions law (paragraph 29 of the MEP);

1/ Structural performance criteria and benchmarks for the third review will be set in the course of the first and second reviews.

Table 1. Argentina: Selected Economic and Financial Indicators

	1998	1999	2000	2001	Est. 2002	Proj. 2003
(Annual percentage changes; unless otherwise indicated)						
National income and prices						
Real per capita GDP	2.6	-4.6	-1.7	-5.6	-10.8	2.0
GDP at current prices	2.1	-5.2	0.2	-5.5	26.1	45.8
GDP at constant prices	3.8	-3.4	-0.8	-4.4	-11.0	2.0
Consumption	3.1	-2.6	0.2	-4.4	-13.6	1.9
Investment	6.5	-12.6	-6.8	-15.7	-39.0	-0.2
Net exports (contribution to growth)	0.0	1.4	0.3	2.1	6.4	0.2
Exports	9.9	-1.3	2.7	2.7	4.9	8.7
Imports	8.1	-11.3	-0.2	-13.9	-51.9	17.7
GDP deflator	-1.7	-1.8	1.0	-1.1	41.7	43.3
Industrial production (average)	1.6	-6.5	-0.3	-7.6	-12.0	2.5
Consumer prices (average)	0.9	-1.2	-0.9	-1.1	25.9	34.6
Consumer prices (end-of-period)	0.7	-1.8	-0.7	-1.5	41.0	35.0
External sector						
Exports, f.o.b. (in terms of U.S. dollars)	1.0	-12.6	13.2	0.9	0.2	1.6
Imports, c.i.f. (in terms of U.S. dollars)	3.1	-18.7	-1.2	-19.5	-55.1	6.4
Export volume	11.6	-0.7	2.8	4.5	4.3	2.9
Import volume	8.7	-13.8	-1.2	-16.8	-55.8	4.4
Terms of trade (deterioration -)	-5.5	-5.9	10.2	-0.6	-1.1	-7.5
Real effective exchange rate						
Average (depreciation -)	3.5	12.4	-0.7	6.0	-57.3	...
Year-end (depreciation -)	0.3	12.6	1.7	2.9	-54.7	...
Money and credit						
Banking system						
Net domestic assets	14.6	4.7	3.3	5.0	...	...
Of which: credit to private sector	10.8	-2.1	-3.8	-17.6	-36.0	...
Money (M2)	24.7	-2.4	-2.5	10.7	-9.4	...
Velocity (GDP relative to M2)	8.0	7.6	7.8	8.1	7.8	...
Interest rate (30-day deposit rate, in percent) 1/	7.6	8.0	8.3	16.2	41.8	...
(In percent of GDP)						
Public sector savings	-0.5	-2.6	-2.2	-4.7	-2.0	-1.7
Federal government cash primary balance	0.9	0.4	0.9	0.1	0.5	2.1
Federal government cash overall balance	-1.3	-2.5	-2.5	-4.4	-9.7	-10.1
Consolidated public sector cash primary balance	0.6	-0.7	0.4	-1.4	0.0	2.5
Consolidated public sector cash overall balance	-2.0	-4.1	-3.6	-6.8	-10.3	-10.2
Gross domestic investment	19.9	18.0	16.2	14.2	10.7	10.9
Gross national savings	15.2	13.8	13.1	12.5	18.9	16.3
Current account deficit	-4.8	-4.2	-3.1	-1.7	8.2	5.3
Public sector external debt (end-of-year)	27.8	29.9	29.7	32.8	83.6	75.3
(In percent of exports of goods and nonfactor services; unless otherwise indicated)						
Public sector debt service	38.0	49.6	54.8	65.7	47.4	57.2
Of which: interest payments	17.5	22.4	21.7	21.0	22.4	23.2
Outstanding use of Fund resources						
(in percent of quota at end-of-period)	251.5	154.1	183.2	525.3	499.8	...
Gross foreign exchange reserves 2/	8.2	10.1	9.8	6.6	8.6	...

Sources: Ministry of Economy; and Fund staff estimates.

1/ Average interest rate on 30- to 60-day time deposits in national currency. The rate is weighted by deposit amounts.
2/ In months of imports of goods and nonfactor services.

Table 2. Argentina: Summary Balance of Payments, 1999-2002

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
	(In millions of U.S. dollars)					
Current account	**-14,270**	**-11,905**	**-8,884**	**-4,567**	**8,817**	**6,528**
Trade account	-4,713	-2,217	1,167	6,348	17,580	17,359
Exports f.o.b.	26,692	23,322	26,412	26,659	26,706	27,073
Of which: petroleum (net)	1,716	2,245	3,946	3,731	3,686	3,738
Imports c.i.f.	-31,405	-25,539	-25,245	-20,311	-9,126	-9,714
Services and transfers	-9,557	-9,688	-10,051	-10,915	-8,763	-10,830
Of which : net interest payments	-5,108	-5,855	-5,865	-7,264	-8,846	-8,944
Capital account	**18,139**	**13,943**	**7,920**	**-16,944**	**-25,167**	**-38,090**
Net public sector capital	9,504	10,638	8,107	-2,065	-305	-18,145
Direct investment	4,638	7,756	10,786	3,303	179	382
Other net private sector capital 1/	3,997	-4,452	-10,973	-18,183	-29,505	-23,484
Overall balance	**3,869**	**2,037**	**-963**	**-21,512**	**-16,349**	**-31,562**
Financing	**-3,869**	**-2,037**	**963**	**21,512**	**16,349**	**31,562**
Net international reserves (increase -)	-3,869	-2,037	963	21,512	3,859	709
Arrears/rescheduling	0	0	0	0	12,490	13,849
Financing gap 2/	**0**	**0**	**0**	**0**	**0**	**30,853**
	(In percent of GDP, unless otherwise specified)					
Current account	**-4.8**	**-4.2**	**-3.1**	**-1.7**	**8.2**	**5.3**
Trade account	-1.6	-0.8	0.4	2.4	16.3	14.2
Exports	8.9	8.2	9.3	9.9	24.7	22.1
Of which: petroleum (net)	0.6	0.8	1.4	1.4	3.4	3.1
Imports	-10.5	-9.0	-8.9	-7.5	-8.4	-7.9
External debt	**47.5**	**51.3**	**51.4**	**52.0**	**126.3**	**110.6**
Of which : public sector	27.8	29.9	29.7	32.8	83.7	75.4
Total external debt service ratio 3/	**76.3**	**100.7**	**105.1**	**109.5**	**103.3**	**126.3**
Of which : public sector debt	38.0	49.6	54.8	65.7	47.4	79.4
	(Percent change)					
Exports	1.0	-12.6	13.2	0.9	0.2	1.6
Of which: petroleum (net)	-18.8	15.8	67.4	-8.3	-8.1	1.8
Imports	3.1	-18.7	-1.2	-19.5	-55.1	6.4
Real GDP	3.9	-3.4	-0.8	-4.4	-11.0	2.0
Memorandum items:						
Net international reserves 4/	22.5	5.8	5.5	0.1	-1.1	-2.7
(in millions of U.S. dollars)	22,844	22,844	21,881	369	-3,490	-4,199
Total external debt (in millions of U.S. dollars)	145,289	145,289	146,339	140,298	136,623	132,986
Exchange rate (*peso* per U.S. dollar)	1.0	1.0	1.0	1.0	3.1	n.a.
LIBOR (6 months U.S. dollar deposits)	6.1	5.5	6.4	3.8	2.1	3.2

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes errors and omissions.
2/ Includes arrear accumulation on private sector debt.
3/ As percentage of exports of goods and nonfactor services.
4/ In months of imports of goods and nonfactor services.

Table 3. Argentina: Summary Operations of the Financial System, 1998-2003 1/

(In millions of pesos, end of period)

					Est.	2003 Proj.		
	1998	1999	2000	2001	2002	Mar	Jun	Dec
I. Central Bank								
Net international reserves	20,807	22,864	21,872	456	-11,736	-15,513	-17,251	-16,166
Net domestic assets	5,499	4,647	4,525	17,680	40,887	45,653	46,150	47,020
Credit public sector 2/	7,401	6,869	6,614	15,375	51,021	51,661	52,569	51,405
Credit to the financial sector	1,922	1,856	1,083	10,124	24,446	24,446	24,446	24,446
Official capital and surplus and unclassified assets (net)	-3,824	-4,079	-3,172	-7,820	-34,580	-30,454	-30,865	-28,831
Monetary liabilities 3/	26,306	27,511	26,398	18,135	29,151	30,140	28,899	30,854
Currency issued	16,370	16,493	15,054	10,960	18,802	19,244	18,003	19,958
Reserve deposits of banks	8,593	10,083	9,575	6,809	10,349	10,896	10,896	10,896
II. Banks and Non-Bank Financial Institutions								
Net foreign assets	-5,601	-8,184	-6,622	-9,346	...	...	...	...
Net claims on Central Bank	9,545	10,999	10,993	-1,429	...	...	...	...
Net domestic assets	63,557	66,567	68,774	70,452	...	...	...	...
Credit to public sector (net)	9,976	13,400	18,414	23,747	...	...	...	...
Credit to private sector	72,112	70,578	67,910	55,979	36,000	36,810	37,620	39,240
Capital and reserves	-17,042	-16,905	-17,283	-16,483	...	...	...	...
Other	-1,489	-506	-267	7,208	...	...	...	...
Private sector deposits	67,501	69,383	73,145	59,677	60,000	60,780	61,560	63,120
Local currency	28,059	26,445	25,773	15,688	58,800	59,535	60,270	61,740
Foreign currency	39,442	42,938	47,372	43,989	1,200	1,245	1,290	1,380
III. Consolidated Financial System								
Net foreign assets	15,206	14,681	15,251	-8,890	...	...	...	...
Net domestic assets	65,791	68,423	70,447	77,640	...	...	...	...
Credit to public sector (net)	17,377	20,269	25,028	39,122	...	...	...	...
Credit private sector	72,112	70,578	67,910	55,979	36,000	36,810	37,620	39,240
Net capital, reserves, and other assets	-23,698	-22,425	-22,490	-17,461	...	...	...	...
Liabilities to private sector	80,997	83,104	85,698	68,750	74,200	75,690	77,180	80,160
Currency in circulation	13,496	13,721	12,553	9,073	14,200	14,910	15,620	17,040
Local currency deposits	28,059	26,445	25,773	15,688	58,800	59,535	60,270	61,740
Foreign currency deposits	39,442	42,938	47,372	43,989	1,200	1,245	1,290	1,380
(In percent of GDP)								
Liabilities to the private sector	25.7	27.4	29.7	29.3	21.1	15.3	15.6	15.6
Currency in circulation	4.1	4.0	4.1	3.8	3.4	3.0	3.1	3.2
Peso deposits	9.1	9.1	9.4	8.1	11.0	12.0	12.2	12.2
Foreign currency deposits	12.4	14.3	16.3	17.4	6.7	0.3	0.3	0.3
(In percent)								
Memorandum item:								
Risk-based capital-asset ratio (capital over risk-weighted assets) 4/	20.3	21.0	20.1	20.8	...	...	...	...
Share of nonperforming loans in total loans 5/	10.3	11.5	12.9	12.3	...	...	...	...
Share of foreign currency loans in total lending	65.7	66.3	68.7	72.1	...	...	...	...
Share of foreign currency deposits in total deposits	54.3	58.5	61.8	76.6	...	...	...	...

Sources: Central Bank of the Republic of Argentina; and Fund staff estimates.

1/ Includes net use of IFI resources. For 2003, foreign currency items are valued at the program accounting rate of Arg$3.85 per U.S. dollar.

2/ For 2003, excludes on-lending of IMF disbursements. For 2002, reflects use of a special SRF deposit at the central bank and data discontinuity/reclassification related to the end of the convertibility.

3/ Does not include quasi-monies (equivalent to Arg$7,500 million at end-December 2002).

4/ For September 2001.

5/ Excludes unrecoverable loans that have been charged-off from assets on balance sheet.

Table 4. Argentina: Consolidated Public Sector Operations, 1998-2003

	1998	1999	2000	2001	Est. 2002	Proj. 2003
	(In millions of Arg$)					
Revenue	**71,204**	**68,998**	**70,307**	**63,324**	**68,949**	**94,665**
Total tax revenue	52,018	49,675	51,542	46,930	50,697	72,629
Social security contributions	11,990	10,892	10,684	9,639	9,654	11,708
Other revenues 1/	7,196	8,431	8,081	6,754	8,598	10,327
Noninterest expenditure	**69,456**	**71,075**	**69,077**	**67,179**	**68,812**	**82,544**
Wages	24,916	26,596	27,014	26,577	25,721	30,281
Goods and services	6,492	6,729	5,981	6,104	6,127	7,494
Transfers to the private sector	26,518	27,219	26,795	25,667	28,594	31,966
Other	11,531	10,531	9,287	8,830	8,370	12,804
Primary balance	**1,748**	**-2,076**	**1,230**	**-3,855**	**137**	**12,120**
Interest 2/	7,851	9,655	11,529	14,457	35,080	62,512
Overall balance	**-6,103**	**-11,732**	**-10,298**	**-18,313**	**-34,944**	**-50,392**
Interest capitalization 3/	0	0	0	1,429	26,430	46,907
Overall cash balance	**-6,103**	**-11,732**	**-10,298**	**-16,884**	**-8,514**	**-3,485**
Memorandum items:						
Other debt creating expenditures 4/	1,244	1,861	1,569	1,552	38,100	16,700
Of which: bonds issued to assist banks	0	0	0	0	36,000	9,000
Interest arrears	0	0	0	0	12,833	17,291
Augmented primary balance	**504**	**-3,937**	**-338**	**-5,408**	**-37,963**	**-4,580**
Augmented overall balance	**-7,347**	**-13,592**	**-11,867**	**-19,865**	**-85,877**	**-84,383**
	(In percent of GDP)					
Revenue	**23.8**	**24.3**	**24.7**	**23.6**	**20.4**	**19.2**
Total tax revenue	17.4	17.5	18.1	17.5	15.0	14.7
Social security contributions	4.0	3.8	3.8	3.6	2.8	2.4
Other revenues 1/	2.4	3.0	2.8	2.5	2.5	2.1
Noninterest expenditure	**23.2**	**25.1**	**24.3**	**25.0**	**20.3**	**16.7**
Wages	8.3	9.4	9.5	9.9	7.6	6.1
Goods and services	2.2	2.4	2.1	2.3	1.8	1.5
Transfers to the private sector	8.9	9.6	9.4	9.6	8.4	6.5
Other	3.9	3.7	3.3	3.3	2.5	2.6
Primary balance	**0.6**	**-0.7**	**0.4**	**-1.4**	**0.0**	**2.5**
Interest 2/	2.6	3.4	4.1	5.4	10.4	12.7
Overall balance	**-2.0**	**-4.1**	**-3.6**	**-6.8**	**-10.3**	**-10.2**
Interest capitalization 3/	0.0	0.0	0.0	0.5	7.8	9.5
Overall cash balance	**-2.0**	**-4.1**	**-3.6**	**-6.3**	**-2.5**	**-0.7**
Memorandum items:						
Other debt creating expenditures 4/	0.4	0.7	0.6	0.6	11.2	3.4
Of which: bonds issued to assist banks	0.0	0.0	0.0	0.0	10.6	1.8
Interest arrears	0.0	0.0	0.0	0.0	3.8	3.5
Augmented primary balance	**0.2**	**-1.4**	**-0.1**	**-2.0**	**-11.2**	**-0.9**
Augmented overall balance	**-2.5**	**-4.8**	**-4.2**	**-7.4**	**-25.3**	**-17.1**

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes transfers of central bank profits.

2/ In 2002-03, excludes interest due on unrestructured debt (phase two).

3/ Reflects the indexation of government bonds and interest capitalization associated with the phase one debt exchange in 2001.

4/ Includes bonds issued to banks in connection with banking crisis, and the reinstatement of wage and pension cuts implemented in July 2001.

Table 5. Argentina: Projected Fiscal Financing Gap, January-August 2003 1/

(In billions of U.S. dollars)

A. Total Financing Needs (B+C)	**13.2**
B. Financing Needs of Federal Government	**12.6**
Debt service to IFIs	3.7
World Bank 2/	2.0
IDB 2/	1.7
BCRA (IMF debt service) 3/	6.6
Bilateral debt service	0.7
Other debt service 4/	1.7
C. Financing Needs of Provinces	**0.7**
D. Financing Sources	**13.1**
Primary balance of Federal Government	1.5
Program financing	11.6
World Bank	2.2
IDB	2.2
BCRA (from IMF disbursements and extension of repurchase expectations) 3/	6.6
Rescheduling of bilateral obligations	0.7
E. Residual Gap (A-D) 5/	**0.1**

Sources: Ministry of Economy; and Fund staff estimates.

1/ Assumes that the need for additional resources related to phase two debt will be met through the accumulation of arrears on this debt.

2/ Including to clear accumulated arrears. Total debt service to the World Bank and IDB, of US$2.2 billion and US$2.0 billion, respectively, also includes payments of obligations of the central bank.

3/ Includes repurchase expectations amounting to about US$3.7 billion, which are assumed to be converted to an obligations basis.

4/ Including interest and amortization of phase one debt, bank compensation bonds, bonds issued in the deposit-bond exchange, tax payments with defaulted bonds, judicial sentences, and other debt-creating expenditures recorded below the line.

5/ To be financed by credit from the central bank.

Table 6. Argentina: Projected Net Obligations to the IMF, January-August 2003 1/

(In millions of U.S. dollars) 2/

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Jan.-Aug.
A. Total Obligations	**1,068**	**171**	**3,096**	**211**	**305**	**291**	**1,113**	**298**	**6,553**
Principal	1,060	0	3,095	211	140	291	1,108	127	6,032
SRF	981				140		981		2,102
SRF (expectation)			2,768						2,768
EFF	79		64	85		28			256
SBA (expectation)			263	127	0	263	127	127	905
Charges/fees	8	171	1		165		5	171	521
B. Disbursements and Extensions of Repurchase Expectations	**989**	**0**	**3,330**	**127**	**300**	**263**	**1,119**	**426**	**6,553**
1. Disbursements, SBA	989		300		300		992	300	2,879
2. Extensions of Repurchase Expectations			3,031	127		263	127	127	3,673
SRF (moved to obligations)			2,768						2,768
SBA (moved to obligations)			263	127		263	127	127	905
C. Net Obligations (A-B)	**79**	**171**	**-234**	**85**	**6**	**28**	**-6**	**-129**	**0**

Source: IMF staff estimates and projections.

1/ Repurchase expectations of US$3.673 billion are assumed to be converted to an obligations basis.

2/ SDR amounts converted to US$ at SDR1 = USD 1.32408.

Table 7. Argentina: Projected Net Debt Service to the World Bank, January-August 2003 1/

(In millions of U.S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Jan.-Aug.
A. Debt service	**812**	**123**	**178**	**806**	**115**	**39**	**38**	**125**	**2,237**
Principal	28	84	132	729	83	31	28	86	1,200
Interest 2/	11	39	46	77	32	8	11	39	262
Arrears clearance	774	...	...	...	...	...	...	...	774
B. Disbursements	**200**	**480**	**320**	**150**	**262**	**208**	**80**	**530**	**2,230**
C. Net debt service (A-B)	**612**	**-357**	**-142**	**656**	**-147**	**-169**	**-42**	**-405**	**7**

Source: World Bank staff estimates and projections.

1/ Includes the clearance of arrears accumulated in 2002, estimated to be US$774 million.
2/ Includes preliminary estimate of interest on new disbursements.

Table 8. Argentina: Projected Net Debt Service to the Inter-American Development Bank, January-August 2003 1/

(In millions of U.S. dollars)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Jan.-Aug.
A. Debt Service	**798**	**61**	**89**	**52**	**48**	**855**	**25**	**63**	**1,991**
Principal	14	12	32	31	29	711	14	14	856
Interest 2/	13	49	57	21	19	144	13	49	365
Arrears clearance	772	...	...	...	...	...	...	...	772
B. Disbursements	**50**	**963**	**60**	**10**	**133**	**865**	**50**	**50**	**2,181**
C. Net Debt Service (A-B)	**748**	**-902**	**29**	**42**	**-85**	**-10**	**-25**	**13**	**-190**

Source: Inter-American Development Bank staff estimates and projections.

1/ Includes the clearance of arrears accumulated in 2002 estimated to be US$771.5 million.

2/ Includes preliminary estimate of interest on new disbursements.

Table 9. Argentina: External Financing Requirements, 1998-2003

(In millions of U.S. dollars)

	2001	Prel. 2002	2003 H1	2003 Jan-Aug	2003 Year
Requirements	**48,805**	**21,162**	**16,101**	**21,827**	**34,903**
Current account deficit	4,567	-8,817	-3,648	-4,253	-6,528
Of which:					
Net interest payments	7,264	8,846	4,216	5,719	8,944
Trade of goods and NFS	3,288	17,359	7,889	11,339	17,523
Capital outflows	44,238	29,979	19,749	26,080	41,431
Scheduled public sector amortization	16,544	8,875	9,775	12,045	18,145
Multilateral loans 1/	2,050	4,301	6,741	8,089	13,114
Of which: IMF	1,185	737	4,798	6,032	9,250
Bilateral loans	506	516	351	498	793
Bonds and notes	7,137	3,752	2,551	3,710	6,029
Other	6,852	306	132	176	-1,791
Private sector amortizations	17,761	10,793	5,429	6,876	9,824
Financial sector	783	2,079	1,855	2,116	2,644
Nonfinancial sector	16,977	8,714	3,574	4,759	7,179
Other private sector flows net (+ outflows) 2/	9,933	10,312	4,545	7,160	13,463
Sources	**48,805**	**21,162**	**7,091**	**10,203**	**18,107**
Capital inflows	36,793	16,725	7,091	10,013	15,029
Foreign direct investment	3,303	179	91	166	382
Disbursements to public sector	18,007	3,553	0	0	0
Private sector borrowing 3/	15,483	503	715	1,074	798
Exceptional financing	0	12,490	6,285	8,774	13,849
Public sector arrears accumulation 4/	0	8,314	4,172	5,987	10,694
Private sector arrears accumulation	0	4,176	1,555	2,087	3,156
Change in gross official reserves (- increase)	12,012	4,437	778	190	3,078
Financing gap	**0**	**0**	**9,010**	**11,624**	**16,795**
Proposed program financing 5/	**na**	**na**	**9,010**	**11,624**	**11,624**
***Of which:* IMF**	**na**	**na**	**5,009**	**6,553**	**6,553**
Residual financing gap	**na**	**na**	**0**	**0**	**5,171**

Sources: BCRA; and Fund staff estimates.

1/ Includes the need to clear the arrears with the IDB and the World Bank of US$772 million and US$774 million, respectively.
2/ Includes errors and omissions.
3/ For 2002 and 2003, includes mostly interbank credit and restructured debt.
4/ Excludes debt by bilateral official lenders.
5/ Includes debt assumed rescheduled by bilateral official lenders.

Table 10. Argentina: Schedule of Purchases Under the Stand-By Arrangement, January-August 2003

Date	Amount in millions of SDRs	In percent of quota	Conditions
January 17, 2003	747.0	35.3	Board approval
March 15, 2003	226.2	10.7	Observance of end-January 2003 performance criteria and completion of first review
May 15, 2003	226.2	10.7	Observance of end-March 2003 performance criteria and completion of second review
June 29, 2003	748.9	35.4	Observance of end-May 2003 performance criteria and completion of third review
August 15, 2003	226.2	10.7	Observance of end-June 2003 performance criteria
Total access 1/	**2174.5**	**102.7**	

1/ Total access on an annual basis is 154 percent of quota.

Table 11. Argentina: Indicators of Capacity to Repay the Fund, 2003-07 1/

	Jan.-Aug. 2003	2003	2004	2005	2006	2007
Payments to the Fund (charges and principal) 1/						
In millions of U.S. dollars	2,359	6,098	5,222	2,975	1,593	1,485
In percent of exports of goods and NFS	12.2	20.2	16.6	8.8	4.3	3.7
In percent of GDP	2.9	5.0	3.4	1.7	0.9	0.8
In percent of quota	84.1	217.5	186.3	106.1	56.8	53.0
In percent of gross international reserves	35.3	60.8	49.6	27.0	13.8	12.9
Fund credit outstanding (end period) 1/						
In millions of SDR	10,941	8,616	4,902	2,769	1,631	544
In millions of U.S. dollars	14,486	11,408	6,491	3,666	2,160	720
In percent of exports of goods and NFS	47.9	37.9	20.8	11.0	6.0	1.9
In percent of GDP	2.9	9.3	4.2	2.1	1.2	0.4
In percent of quota	390.3	307.4	174.9	98.8	58.2	19.4
In percent of gross international reserves	140.8	114.2	62.0	33.6	19.1	6.6

Source: Fund staff estimates.

1/ The repurchase schedule is assumed on an obligations basis from September 2003 onward. Future charges were calculated assuming an SDR interest rate of 1.91 percent--its value at end-December 2002.

Table 12. Argentina: Quantitative Performance Criteria and Indicative Targets, January-June 2003 1/

(In millions of Argentine *pesos*, unless otherwise noted)

	Performance Criteria		Indicative Targets	
	end-Jan.	end-Mar.	end-May	end-Jun.
A. Fiscal Targets				
1. Cumulative primary balance of the federal government (floor)	424	1,500	3,310	4,500
2. Cumulative overall cash balance of the federal government 2/	18	-2,307	-2,708	-2,198
3. Federal government debt stock (ceiling)	515,000	576,000	603,000	612,000
4. Cumulative overall balance of the provincial governments 2/	...	-350	...	-712
5. Consolidated public sector debt stock (ceiling)	583,000	613,000	640,000	650,000
B. Monetary Targets				
6. Stock of net international reserves of the central bank (in US$ millions) (floor)	-3,900	-3,900	-3,900	-3,900
7. Stock of adjusted monetary base 2/	37,250	37,650	37,200	36,400
8. Stock of net domestic assets of the central bank (ceiling)	52,265	52,665	52,215	51,415

1/ As defined in the Technical Memorandum of Understanding.

2/ Indicative targets throughout the program period.

ARGENTINA—FUND RELATIONS

(As of December 31, 2002)

I. Membership Status: Joined September 20, 1956, Article VIII

A. Financial Relations

II. General Resources Account:

	In millions of SDRs	In percent of Quota
Quota	2,117.10	100.0
Fund holdings of currency	12,664.56	598.20
Reserve position in Fund	0.02	0.00

III. SDR Department:

	In millions of SDRs	Percent of Allocation
Net cumulative allocation	318.37	100.0
Holdings	69.28	21.76

IV. Outstanding Purchases and Loans:

	In millions of SDRs	In percent of Quota
Stand-by arrangements	9,756.31	460.83
Extended Fund arrangements	791.17	37.37

V. Financial Arrangements:

			SDR Millions	
Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-by	03/10/00	03/09/03	16,936.80	9,756.31
Of which: SRF	01/12/01	01/11/02	6,086.66	5,874.95
EFF	02/04/98	03/10/00	2,080.00	0.00
Stand-by	04/12/96	01/11/98	720.00	613.00

VI. Projected Obligations to the Fund: (Under the Repurchase Expectation Assumptions) (SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	7,563.74	2,196.86	765.52	21.35	--
Charges/interest	345.52	64.34	16.43	5.08	4.79
Total	**7,909.20**	**2,261.20**	**781.90**	**26.43**	**4.80**

VII. **Safeguards Assessments:** Under the Fund's safeguards assessment policy, the Central Bank of Argentina (CBA) is subject to an assessment with respect to the proposed stand-by arrangement. A safeguards assessment of the CBA was completed on September 05, 2002. The assessment concluded that: (i) substantial risks might exist in the system of internal controls, (ii) a more robust financial reporting framework should be developed, and (iii) the central bank's operational independence from government interference needs strengthening. Staff recommendations included a prior publication of the 2001 financial statement and the strengthening of controls over the reporting of program data. The central bank has recently informed staff that these recommendations have been implemented. Other measures include the adoption of international accounting standards (IAS) and elimination of the transfers of unrealized bank profits to the government. Staff will continue monitoring the implementation of the recommended measures.

B. Nonfinancial Relations

VIII. **Exchange Rate**: On March 27, 1991 a law was passed guaranteeing the full convertibility of the austral under a currency board arrangement and pegging the austral at ₳10,000 per U.S. dollar. On January 1, 1992 the peso was substituted for the austral at a rate of 1 peso per 10,000 australes. On January 7, 2002 the currency board arrangement was abandoned in favor of a dual exchange rate regime with an official rate of Arg$1.4 per U.S. dollar for most trade, trade finance, and public sector transactions; remaining transactions were at a market floating rate. On February 11, 2002 the dual exchange rate regime was abolished and substituted by a managed floating regime with no pre-announced rate of the exchange rate.

As of January 16, 2003, Argentina maintains two exchange restrictions that are subject to the Fund's jurisdiction under Article VIII, Section 2 (a): a restriction arising from the freeze on time deposits pursuant to the *corralón*, and a restriction arising from the prior approval requirement, which operates as a de facto prohibition, for moderate loan amortization payments.

IX. **Last Article IV Consultation:** The 2002 Article IV consultation was concluded by the Executive Board on January 8, 2003 (EBS/02/214).

X. **Fourth Amendment**: Argentina has accepted the Fourth Amendment to the Articles of Agreement.

XI. Technical Assistance, 2002

Missions	Purpose	Time of Delivery
FAD	Tax Administration	January 2002
LEG	Insolvency Law and Other Legal Issues	March 2002
MAE	Bank Restructuring	March 2002
LEG	Insolvency Law and Other Legal Issues	April 2002
MAE	Bank Restructuring	April 2002
MAE	Bank Restructuring	May 2002
MAE	Bank Restructuring	June 2002
MAE	Staff Visit	July 2002
LEG	Safeguards Assessment	July 2002
MAE	Bank Restructuring	August 2002
MAE	Bank Restructuring	September 2002
FAD	Public Expenditure Management	September 2002
LEG	Insolvency Law and Other Legal Issues	November 2002
FAD	Customs Administration	November 2002
MAE	Development of Banking Model	November 2002

XII. Resident Representative: Mr. Terrier was senior resident representative in Buenos Aires during February 2000 to September 2002; Mr. Cubeddu has been the resident representative in Buenos Aires since September 2002.

ARGENTINA: RELATIONS WITH THE WORLD BANK GROUP[1]

1. Bank lending to Argentina as of November 30, 2002 totaled US$17.5 billion (net of cancellations). Thirty-seven loans totaling US$4.1 billion remain under execution, with US$1.8 billion undisbursed. The Bank's assistance has been to focus on supporting government efforts to: (i) enhance social development, including poverty alleviation and human resource development; (ii) improve the performance and institutional capacity of sub-national governments to deliver key social and infrastructure services; and (iii) consolidate structural reforms, including reforms in public finances, labor markets and the financial sector to ensure successful implementation of the assistance program, and enhancing governance through institution building.

2. Out of the 37 ongoing loans, one is a Structural Adjustment Loan (SAL) for US$400 million—of which US$200 remain undisbursed—approved in August, 2001 as part of the joint IFI support to Argentina as the country began to slip deeper into the crisis at the end of 2000. In addition, 3 of the 37 ongoing loans are Provincial Reform Loans (PRLs) totaling US$703 million—of which US$421 remain undisbursed. These loans, approved between September, 2000 and July, 2001, are part of a continuing effort to assist selected provinces—in this case Catamarca, Córdoba, and Santa Fe—willing and able to undertake structural reforms in key social sectors (education, health, social protection), fiscal policies, and financial management. These operations complement the adjustment operations, addressing many of the same concerns such as social equity and systemic changes in health and education and on basic economic management. The remaining tranche releases for both the SAL and the PRLs are subject to a sound macroeconomic environment, as well as other specific conditionality in each case.

3. Following the worsening of the crisis in December 2001, the Bank responded to the social emergency by reallocating about US$250 million of the existing portfolio for health, education and social protection.

4. During November 2002, the Bank carried out a joint Portfolio Review with the Government of Argentina, aimed at assessing performance during CY02, identifying prospects for the coming year and actions needed to ensure that the Bank's portfolio in Argentina contributes effectively to the country's development objectives in the short and medium term. Among of the main conclusions of the Joint Portfolio Review is the fact that, subject to adequate budgetary allocations, potential disbursements out of the existing Bank's portfolio in Argentina could range between US$500–600 million in CY03

5. On November 14, 2002 Argentina announced it would be making only a partial payment on its October 15 obligation to the World Bank. As of that date, no new loans can be presented to the Board of Directors, and Argentina looses its eligibility for reductions of interest charges falling due over the next six months. Out of a payment obligation of

[1] Prepared by the staff of the World Bank.

US$805 million, Argentina made a US$79.2 million interest payment. On November 29, 2002 Argentina became 45 days overdue in its debt service payments to the Bank, and as of that date no replenishments or initial deposits to special accounts can be made. Moreover, on December 9, 2002 the Bank will notify co-financiers, namely Japan Bank for International Cooperation (JBIC) and Inter-American Development Bank (IDB), on the impending suspension of disbursements. If Argentina is not current on all payments to the Bank by December 13, 2002, the Bank will suspend, effective December 14, 2002, the borrower's rights to make withdrawals on all effective and not fully disbursed loans.

6. Among the immediate consequences that the situation described above has involved is the postponement of the presentation to the Board of Directors of an investment loan for US$600 million to finance the Heads of Household Project, in support of the Government's workfare program, originally scheduled for November 19, 2002.

Financial Relations with the World Bank

(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amount
I. IBRD Operations (as of November 30, 2002)			
Fully disbursed loans	**12,961.6**	**12,961.6**	**0.0**
Loans in process of disbursement	**4,566.1**	**2,069.6**	**2,408.9**
Agricultural,fFishing and forestry	86.8	55.0	31.7
Education	732.4	227.2	461.4
Energy and mining	46.5	31.3	15.1
Finance	251.5	188.0	63.4
Health and other social services	905.3	294.6	591.2
Industry and tradc	27.9	16.9	8.5
Law and justice and public admin.	991.0	508.8	463.0
Transportation	1,146.1	545.9	598.8
Water, sanitation and flood protection	373.7	196.8	175.8
Others	5.0	5.0	0.1
Policy based guarantee	250.0	250.0	0
Total loans and guarantee	**17,527.7**	**15,031.2**	**2,408.9**
Repaid 1/	**6,622.7**		
Outstanding	**8,747.7**		

II. IFC Operations (as of November 30, 2002)

	IFC			
	Loans	Equity	Quasi	Participants
Held	690.5	196.3	208.1	899.6
Disbursed	660.0	139.6	208.1	879.6
Pending commitment	158.0	42.9	15.0	529.5

III. IBRD Loan Transactions

	Actuals (calendar year)						
	1995	1996	1997	1998	1999	2000	2001
Disbursements	941.0	1,076.7	796.9	2,030.6	1,572.9	1,018.8	1,328.8
Repayment	258.6	281.9	299.1	350.2	445.0	538.1	675.5
Net lending	682.4	794.8	497.8	1,680.4	1,127.9	480.7	653.2

Source: World Bank.

1/ Includes repayment from third parties.

ARGENTINA—RELATIONS WITH THE IDB[1]

Portfolio

1. The Bank's activities had to be adjusted in light of this new economic context, so as to:

   - encompass harsher fiscal constraints;
   - protect social expenditure, deepening the actions undertaken with respect to reformulation of the social portfolio;
   - support development of the productive sectors through loans to the provinces under the new agreement with the federal government and support for small- and medium-sized enterprises (SMEs), particularly export-oriented SMEs, and support a review of the portfolio relating to the productive sectors; and
   - help maintain political reforms.

2. In March 2002, authorization was given to redirect US$694.2 million from low-performing operations of lesser priority in the context of the social and economic crisis now affecting the country to the Argentine government's Social Emergency Plan for social protection and containment programs, particularly food, medicines, and education.

3. In a second stage, work is underway on a proposal to redirect resources from active projects that are unlikely to make progress again soon to initiatives that help revitalize economic activity and improve the competitiveness of the productive sectors. This revitalization package could total US$800 million.

4. Disbursement of the second tranche of two sector loans is pending: the Financial Sector Program in the amount of US$243 million, and the Sector Program to Support the Federal Pact for Growth and Fiscal Discipline in the amount of US$246.7 million. In due course, a proposal will be submitted to the Board of Executive Directors to reformulate the conditionality of these operations to adapt them to the new reality in Argentina.

5. As of December 2, 2002 disbursements for the year totaled US$406.1 million, 72.3 percent of which were for the social sectors.

Operations Program

1. Provided that an agreement is reached with the IMF, an **emergency loan** of US$1.5 billion may be approved to protect social expenditure. This operation would

[1] Prepared by the Staff of the IDB.

be disbursed in two tranches. Additionally, once the new government to be elected in the coming months has taken office, an additional emergency loan in the amount of US$1 billion could be approved, which could serve the social sectors as an instrument for policy dialogue with the new authorities.

2. Additionally, a financial sector loan is being considered for 2003; a loan for a group of comparatively less-developed provinces and direct loans to three provinces (Salta, Río Negro, and San Luis) that would help revitalize economic growth by supporting sectors with greater comparative advantages.

3. The operation relating to the comparatively less-developed provinces includes planning a long-term development strategy at the national and provincial level, with a view to identifying and strengthening sources of economic growth.

4. Moreover, technical cooperation operations are in preparation that aim to improve the competitiveness of small- and medium-sized enterprises and to strengthen the financial sector.

5. The Bank's new strategy for action in Argentina is expected to be approved by the end of 2003.

Argentina—Stand-By Arrangement

Attached hereto is a letter (the "Letter"), with an annexed Memorandum of Economic Policies (the "Memorandum") and Technical Memorandum of Understanding (the "TMU"), dated January 16, 2003 from the Minister of Economy and the President of the Central Bank of Argentina requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Argentina intend to pursue for the period of this stand-by arrangement; and

(b) understandings of Argentina with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Argentina will pursue for the period of the stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from January __, 2003 to August 31, 2003, Argentina will have the right to make purchases from the Fund in an amount equivalent to SDR 2,174.5 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 747 million until March 15, 2003, the equivalent of SDR 973.2 million until May 15, 2003, the equivalent of SDR 1,199.4 million until June 29, 2003, and the equivalent of SDR 1,948.3 million until August 15, 2003.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Argentina's currency subject to repurchase beyond 25 percent of quota.

3. Argentina will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Argentina's currency subject to repurchase beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the floor on the cumulative primary balance of the federal government, or

(ii) the ceiling on the stock of federal government debt, or

(iii) the ceiling on the stock of consolidated public sector debt, or

(iv) the ceiling on the stock of net domestic assets of the Central Bank of Argentina, or

(v) the floor on the stock of net international reserves of the Central Bank of Argentina,

specified in Table 1 of the Memorandum and in the TMU, was not observed; or

(b) if Argentina fails to carry out its intentions with respect to the following structural performance criteria:

(i) by March 14, 2003, conversion of the fuel tax to an ad valorem tax and elimination of the income tax exemption on export rebates, as specified in paragraph 7 and Box 1 of the Memorandum, or

(ii) by March 14, 2003, revision to banking regulations to strengthen the banking supervisory and prudential framework, as specified in paragraph 29 and Box 1 of the Memorandum,

(iii) by March 14, 2003, signing of the 2003 bilateral agreements by governors of provinces representing a combined total of at least 80 percent of the 2002 consolidated provincial deficit, as specified in paragraph 12 and Box 1 of the Memorandum, or

(iv) by March 31, 2003, elimination of all competitiveness plans, as specified in paragraph 7 and Box 1 of the Memorandum, or

(v) by May 15, 2003, announcement of a transitional minimum capital adequacy ratio for banks, as specified in paragraph 29 and Box 1 of the Memorandum; or

(c) after March 14, 2003, May 14, 2003, and June 28, 2003, until the respective reviews contemplated in the third paragraph of the Letter are completed; or

(d) unless, for so long as Argentina has outstanding sovereign external payments arrears to private creditors or by virtue of Argentina's imposition of exchange controls there are outstanding non-sovereign external payments arrears, a financing assurances review is completed; or

(e) if, at any time during the period of the stand-by arrangement,

(i) the provinces that have signed the 2002 bilateral agreements issue any quasi-monies, as specified in Box 1 of the Memorandum, or

(ii) Argentina accumulates arrears to bilateral or multilateral creditors, as specified in paragraph 18 and Box 1 of the Memorandum, or

(iii) Argentina adopts any statute or other legal instrument that provides a means for any involuntary suspension of creditors' rights, as specified in paragraph 30 and Box 1 of the Memorandum; or

(f) if, at any time during the period of the stand-by arrangement, Argentina

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Argentina is prevented from purchasing under this stand-by arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Argentina will not make purchases under this stand-by arrangement during any period in which Argentina has (i) an overdue financial obligation to the Fund or is failing to meet a repurchase expectation (a) in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (b) in respect of a purchase of debt and debt service reduction operations pursuant to Decision No. 9331-(89/167), or (c) pursuant to subparagraph 17 or 31 of Decision No. 8955-(88/126), on the Compensatory Financing Facility, or (d) in respect of a purchase under Decision No. 11627-(97/123) SRF on the Supplemental Reserve Facility and Contingent Credit Lines, or (e) pursuant to paragraph 1(b) of Decision No. 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114); or (ii) is failing to meet a repayment obligation to the PRGF Trust established by Decision No. 8759-(87/176) PRGF, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRGF Trust Instrument.

5. Argentina's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing

Director, formally to suppress or to limit the eligibility of Argentina. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Argentina, the Fund agrees to provide SDRs at the time of the purchase.

7. Argentina shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) Argentina shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Argentina's balance of payments and reserve position improves.

(b) Any reductions in Argentina's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement Argentina shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Argentina or of representatives of Argentina to the Fund. Argentina shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Argentina in achieving the objectives and policies set forth in the Letter and Memorandum.

10. In accordance with the third paragraph of the Letter, Argentina will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 of this arrangement have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Argentina has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Argentina's balance of payments policies.

Buenos Aires, Argentina
January 16, 2003

Dear Mr. Köhler,

The attached Memorandum of Economic Policies describes the economic program and objectives of the Government of Argentina for the first six months of 2003. In support of this program, the Government requests a Stand-By Arrangement in the credit tranches from the Fund for the period through August 31, 2003 in an amount equivalent to SDR 2.1745 billion. We also request that the repurchase expectations arising during the arrangement period be moved to an obligations basis, and hereby cancel Argentina's existing Stand-By Arrangement, which was approved by the Fund in March 2000.

We are firmly committed to ensure the continued timely honoring of the obligations that the Republic of Argentina has to the International Monetary Fund. In this context, we request that under the proposed new Stand-By Arrangement, amounts be disbursed in SDRs and held in the SDR account of the Republic of Argentina, solely for the purpose of the timely honoring of the obligations of Argentina to the International Monetary Fund. We do not intend to convert SDR amounts in foreign currencies for other purposes. Accordingly, we confirm that the Treasurer's Department of the International Monetary Fund is authorized to debit the SDR account of the Republic of Argentina when obligations of the Republic to the Fund become due.

During the period of the requested arrangement, the Government will maintain a continuous dialogue with the Fund, in accordance with the policies on such consultations, on the adoption of any measures that may be appropriate to achieve the objectives of the program. Reviews under the arrangement will be completed by March 14, 2003, May 15, 2003, and July 15, 2003. These reviews will be associated with financing assurances reviews and will assess overall performance under the program, compliance with the IMF's Lending into Arrears Policy, and observance of the performance criteria for end-January, end-March, and end-May, respectively.

Sincerely yours,

Dr. Roberto Lavagna
Minister of Economy

Lic. Alfonso Prat-Gay
President of the Central Bank

Mr. Horst Köhler
Managing Director
International Monetary Fund

MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF ARGENTINA FOR A TRANSITIONAL PROGRAM IN 2003

I. INTRODUCTION

1. The government has formulated a short-term transitional program aimed at maintaining macroeconomic stability and strengthening economic recovery during the upcoming political transition. Presidential elections are scheduled for April 2003 and a newly elected government will take office in late May. The transitional program will lay the foundation for a more comprehensive program of fundamental reforms that will be developed after the elections and that is needed to tackle the deep structural problems that confront Argentina. The key objectives of the transitional program are to ensure fiscal, monetary, and banking soundness and to rebuild domestic and foreign investor confidence by maintaining equal treatment of all parties, protecting contract rights, and defending the rule of law.

2. The main components of the transitional program are: (i) the 2003 budget, which seeks to keep the federal fiscal deficit under control; (ii) implementation of the federal-provincial bilateral pacts; (iii) a monetary program to maintain inflation at a low level; (iv) preparatory steps toward structural measures needed to strengthen the fiscal position over the medium term; (v) progress toward debt restructuring; (vi) a strategy to restore the health of the banking system; and (vii) ensuring full respect for the rights of creditors, restoring legal certainty, and making a start on corporate restructuring.

3. We will observe the standard performance criteria against imposing or intensifying exchange restrictions, multiple currency practices, and import restrictions for balance of payments reasons. Quantitative performance criteria and indicative targets of the program are set out in Table 1 and in the attached Technical Memorandum of Understanding (TMU). There will be three program reviews, including for financing assurances.

II. MACROECONOMIC POLICIES FOR 2003

A. Macroeconomic Framework

4. The macroeconomic framework for 2003 assumes that real GDP grows by about 2–3 percent (compared to an estimated decline of 11 percent in 2002) and that 12-month consumer price inflation could be held within 35 percent by the end of the year. A significant current account surplus is projected of about US$6.5 billion in 2003. Gross international reserves are targeted to be broadly unchanged over the period of the arrangement. IFI lending to Argentina is assumed to cover obligations falling due to these institutions during the period January–August 2003, including the clearance of arrears.

B. Fiscal Policy and the Social Safety Net

Overall aims

5. The public finances are being adapted to a sharp reduction in domestic and international financing. The consolidated government (cash) primary surplus is targeted to rise to about 2½ percent of GDP in 2003 (compared to broad primary balance in 2002), of which about 1.8 percent of GDP is expected to be realized during the January–August period. Social programs have been adapted to alleviate the worst effects of the economic crisis.

The Federal Government.

6. The 2003 budget was approved by congress on December 26, 2002 with measures sufficient to achieve a (cash) primary surplus of 1.9 percent of GDP (up from an estimated 0.5 percent of GDP in 2002). The approved budget eliminated a contingency allocation of Arg$3½ billion—originally intended for use by the incoming government—and made further cuts in primary spending of about Arg$1 billion. Several spending initiatives introduced by Congress were vetoed by presidential decree on January 9, others will be accommodated through reductions in other spending programs. In addition, some revenue measures will be resubmitted to Congress in order to reach the original targeted primary surplus of 2.1 percent of GDP.

7. *Revenue measures*. A presidential decree was issued in November 2002 capping the use of federal bonds for federal tax payments at Arg$80 million per month, and legislation was passed in December prohibiting the Executive from granting future tax amnesties. In addition—after the two-month temporary cut introduced by decree in November 2002 —the VAT rate will revert to the 21 percent standard rate on January 18, 2003, as provided for in the executive decree. Legislation to suspend the remaining competitiveness plans for the agriculture, transportation, and the media sectors will be reconsidered by the Congress in February. It is our intention that all competitiveness plans be eliminated by end-March, 2003. In February 2003 the government will also resubmit to Congress legislation to convert the fuel tax to an ad-valorem basis and to eliminate the income tax exemption on export rebates.

8. *Expenditure policy*. A ceiling on primary spending (excluding transfers to provinces) has been set at Arg$45.9 billion, a decline of 1½ percent of GDP compared to 2002. Of this amount, personnel expenditures and pensions are budgeted at Arg$27.9 billion. The reinstatement of the court-ordered 13 percent wage and pension cut implemented between July 2001 and December 2002 will be made in the form of bonds that do not amortize in 2003. Adequate resources will be provided to service: (i) phase one debt and other bonds issued in the deposit exchange programs; (ii) compensation bonds issued for the asymmetric *pesoization,* the asymmetric indexation of banks' assets and liabilities, and for bank capital losses incurred as a result of court injunctions (*amparos*) to release reprogrammed time deposits; and (iii) all obligations to the IFIs.

9. *Central bank transfers and credit to government*. The central bank will transfer only realized profits to the federal government up to Arg$1 billion in 2003. Central bank credit to

the government in 2003 will be strictly limited in line with the agreed program. A phased strategy for the redemption of quasi-monies will be agreed with the IMF staff during the second program review.

Social safety net

10. Total spending on the social safety net is projected to broadly double from 0.6 percent of GDP in 2001 to 1.2 percent of GDP in 2003. A principal component is the new Heads of Household (*Jefes y Jefas de Hogar Desempleados*) program. The World Bank Executive Board is expected to consider a loan for the program after the clearance of arrears, which is expected by January 23, 2003. The program targets about 1.7 million beneficiaries. As part of its governance and transparency, we have ensured that: (i) at least 80 percent of the beneficiaries meet the eligibility requirements; (ii) at least two-thirds of the beneficiaries participate in eligible work activities; and (iii) regular audits (including external) and supervision in field are held, with the first two audits already undertaken. In addition to this program, and in coordination with the IDB and the World Bank, we are reallocating expenditures toward emergency health, education, and nutrition programs.

Provincial governments

11. Provincial adjustment is underpinned by the federal-provincial pact on temporary revenue-sharing arrangements signed in February 2002, which abolished the floor on transfers to provinces and aimed at eliminating provincial deficits by 2003. Provincial adjustment is being achieved through spending controls, administrative reforms, reporting requirements, and penalties for noncompliance. The provinces that have signed the bilateral agreements have terminated all new issues of provincial treasury bills and quasi-monies and the federal government has also ceased issuing *Lecops*. Under the bilateral agreements, the provinces have consented that the federal government would apply future co-participation transfers to accelerated repayment of debt to the federal government in the event that a province issues any new quasi-money. In the event that a province exceeds its deficit target, orderly financing will be correspondingly reduced.

12. On this basis, the provincial governments are targeted to achieve a primary surplus of 0.4 percent of GDP in 2003 (after an estimated deficit of about ½ percent of GDP in 2002). By March 14, 2003, the governors of provinces accounting for at least 80 percent of the 2002 consolidated provincial deficit are expected to sign the supporting bilateral agreements for 2003 committing them to the fiscal targets; by the second program review, it is expected that provincial legislatures will ratify all the bilateral agreements.

13. In addition to the reporting requirements of provinces specified in the bilateral agreements, the federal government and the central bank have established a system of below-the-line monitoring of financing transactions. This system records all financing transactions of the provinces by tracking the movements in provincial government deposits, including quasi-monies, the issuance of provincial bonds, the issuance of any other provincial debt (including debt service arrears), privatization receipts, and the amortization of provincial

debt. This information will be provided to the Fund on a monthly basis with a delay of less than 55 days after the end of the reporting period, beginning with data for January 2003.

14. The central bank has prohibited banks from lending to local governments (provinces and municipalities), as well as from using future revenue-sharing transfers as loan collateral. In addition, if the provinces issue quasi-monies, the federal government will not support their participation in debt markets, or the receipt of IFI financial support—except under emergency social programs—until the provinces redeem the quasi-monies issued.

Public debt

15. The change in federal government debt during end-December 2002 to end-June 2003 will be limited to Arg$105 billion, as defined in the accompanying TMU. This will bring public debt to Arg$612 billion. The ceiling includes: the assumption of provincial government debt of Arg$34 billion; Arg$8 billion in obligations incurred in previous years, but as yet unrecognized; the issuance of Arg$17 billion of bonds to financial institutions to compensate them for the asymmetric *pesoization* and indexation and the impact of *amparos* on their balance sheets; and Arg$27 billion for the effect of inflation on indexed debt.

C. Monetary and Exchange Rate Policies

16. The monetary program seeks to strengthen the nominal anchor for price expectations and to restrain foreign exchange intervention. The proposed strategy is as follows:

- Indicative targets have been established for an adjusted monetary base (defined as the nonremunerated monetary liabilities of the central bank plus the quasi-monies issued by the federal government and the provincial governments). This aggregate amounted to Arg$36.6 billion on December 31, 2002.

- The central bank will target this aggregate to return to its end-December 2002 level by August 2003, following a temporary increase during February and March. Given the uncertainties in regard to money demand, the monetary targets will be reassessed at the time of each program review.

- We will consult with Fund staff if liquidity pressures on banks develop and threaten to undermine the monetary program.

- Full flexibility of the exchange rate will be maintained, with foreign exchange intervention limited to smoothing disorderly market conditions.

17. Operationally, the monetary program will be implemented through a ceiling on central bank net domestic assets (NDA) (adjusted for quasi-monies) and a floor on net international reserves (NIR) (as specified in the accompanying TMU). Monetary policy will be conducted mainly through open-market auctions of central bank bonds at freely determined interest rates.

D. Program Financing

18. The total external financing need is estimated at US$11.6 billion for the period January 1–August 31, 2003, including the clearance of arrears to the IFIs. This estimate of the financing need assumes a temporary accumulation of arrears on phase two debt that will be addressed as set out in section III below. The financing need is expected to be met by new disbursements by the Fund of about US$2.9 billion and the extension of repurchase expectations amounting to US$3.7 billion, new disbursements from the World Bank and the IDB broadly equivalent to amounts falling due to them (US$4.4 billion), and a requested rescheduling of obligations to Paris Club creditors (US$0.7 billion). The government will not accumulate arrears to bilateral or multilateral creditors during the program period.

E. Exchange Controls

19. As the economic and financial crisis deepened, the government found it necessary to impose a large number of exchange restrictions and controls which we are beginning to dismantle as economic stability is gradually restored. Specifically, effective January 16, 2003, Article VIII restrictions in the following areas have been eliminated:

- The prior authorization requirements for external transfers related to interest payments, profit remittances, and dividend payments. In addition, the government remains prepared to provide foreign exchange for payments of reinsurance premiums for all transactions that are shown to be legitimate.

- The prior authorization requirement for foreign exchange sales to nonresidents in cases where residents have access to foreign exchange for transfers (which cover all current transactions).

20. A proposal to modify the prior authorization requirement for external payments of principal on loans will be made at the time of the first review.

21. In addition, effective January 8, 2003, the ceiling on the export surrender requirement to the BCRA was raised to US$1 million. At the time of the first review of the program, we will assess the scope for the further liberalization of the export surrender requirement and the remaining foreign exchange controls.

F. Privatized Utilities

22. We have requested IMF/World Bank assistance to review in February the financial situation of the privatized utilities and to help develop a new regulatory framework that would replace the present price and tariff controls, and facilitate debt restructuring by the utility companies.

III. Medium-Term Framework and Debt Restructuring

23. The medium-term strategy aims at restoring a real GDP growth rate of around 3½ percent over the medium term, with inflation brought down to around 5 percent or less from 2004 onwards. The real exchange rate is expected to appreciate from the depreciated levels of 2002, but would remain below its pre-crisis level contributing to a further strengthening of the balance of payments.

24. The government recognizes the critical importance of fiscal reforms at both the federal and provincial level, which, along with the improvement in the macroeconomic environment, are needed to sustain over the medium term an annual primary balance of the consolidated government substantially higher than in 2003. To support this fiscal effort—which would be unprecedented in Argentina's recent history—the government has committed to preparing key legislation related to structural fiscal reforms. Specifically, with technical assistance from the IMF, the government will, by the second review of the program, prepare draft legislation that provides for:

- A comprehensive reform of the tax system aimed at: (i) a substantial reduction in tax exemptions and preferential tax rates; (ii) a substantial reduction in regional promotion schemes; (iii) broadening the income tax base to include interest and dividend income and the profits of cooperatives and foundations; and (iv) a phased increase in the rate of the diesel excise to bring it in line with the rate for gasoline.

- A reform of intergovernmental relations that would include: (i) a simplification of the rules related to the primary distribution; and (ii) would link more closely the secondary distribution of transfers to the revenue capacity and expenditure needs of each province.

25. We will strengthen the collaborative approach toward restructuring public debt held by private creditors. With a view to securing a high participation rate, we are committed to achieving an adequate degree of intercreditor equity in the restructuring. Payments on restructured instruments will be consistent with the envelope of resources that Argentina can generate and, over the medium term, can reasonably expect to mobilize from private capital markets.

26. Our debt management team will work closely with Argentina's legal advisors in the restructuring of the debt. We have issued terms of reference for the appointment of external advisors to assist in managing relations with creditors and in preparations for debt-restructuring negotiations. We have conducted initial meetings with bondholders in the United States, Europe, and Japan, and we will maintain regular contacts with creditors in the period up to the completion of the restructuring. We have explained the strategy outlined herein in contacts with creditors, including by dissemination of the strategy on the ministry of economy website. We have invited comments from creditors, including on issues of process, appropriate representation, and types of instruments to be offered in the restructuring

and we would respond promptly to these comments. We will continue to share relevant nonconfidential information with creditors on a timely basis.

27. In the period leading up to the commencement of full restructuring discussions we will pursue a number of preparatory steps in consultation with Fund staff, including:

- Appointing external advisors by the first review of the program.

- The preparation of a database on the types of creditor, and magnitude of holdings, based on our own databases, and the ongoing dialogue with creditors, by the second review.

- Further the dialogue with creditors on procedural aspects of the restructuring, including representation issues, methodology for establishing creditors' claims, and means of tailoring restructured instruments to investors' needs.

28. With regard to debt service to official bilateral creditors, the Government of Argentina has initiated preliminary contacts with Paris Club creditors aimed at establishing the parameters for a debt rescheduling, including the definition of the cut-off date, that can make an effective contribution to debt sustainability.

IV. BANKING SYSTEM REFORMS

29. The government is taking steps to restore the health of the banking system to ensure it supports economic recovery and provides a basis for sound macroeconomic management.

- The institutional basis for bank resolution has been strengthened through the creation of a bank resolution unit—*Gerencia de Supervision Especializada* (GSE)—with responsibility for implementing banking resolution actions for nonviable banks. The GSE will report directly to the Executive Board of the central bank.

- Procedures for resolving problem banks are to be strengthened through agreed amendments to the financial institutions law that will: (i) facilitate asset transfers by the BCRA Board to private financial trusts; (ii) establish valuation rules for asset transfers; (iii) clarify central bank powers to provide emergency liquidity support to banks under rehabilitation; (iv) establish procedures for the rapid judicial appointment of receivers in banks under resolution; (v) limit the ability of the judiciary to reverse central bank decisions on asset transfers to third parties; (vi) strengthen the creditor rights of purchasers and managers of transferred assets; and (vii) protect public officials from aspects of the present legislation that can result in challenges or compensatory claims against acts performed in a bank restructuring and rehabilitation process. The amendments are to be submitted to Congress by March 14, 2003, with passage expected by the second review of the program.

- Depositor protection has been clarified through the establishment of a temporary depositor protection system, whereby depositors in closed banks are provided the option of receiving government bonds. In case the option is not exercised, deposit holders will be paid out of liquidation proceeds according to the banking law.

- Agreed mechanisms will be created to compensate banks for the adverse effects on their balance sheets of the asymmetric indexation of their assets and liabilities and the *amparos.* These mechanisms are expected to be announced by the first program review.

- The supervisory and prudential framework will be strengthened through revisions to banking regulations that establish norms for foreign exchange exposure, update commercial loan classification requirements, and regulate the valuation of government loans and bonds. The revisions are to be completed by end-February 2003 .

- Timely bank reporting will resume. Banks have been instructed to report September and December 2002 financial statements by end-February 2003 together with business plans/cash flow projections for 2003–04. On the basis of these reports, by May 15, 2003, the central bank will announce a minimum capital adequacy ratio for a transitional period and assess and classify banks.

- The basis for central bank liquidity support of banks will be clarified. Liquidity support will be provided on a uniform basis to all banks (public and private) and resolution triggers for banks relying excessively on such support would be introduced. The appropriate regulations are expected to be issued by mid-February 2003 .

- Reform of the three main public banks is being initiated. In February 2003 , documents will be issued launching the bidding process for international accounting firms to conduct due diligence examinations and for an international management consultant to: (i) advise on measures to control costs, improve risk management, and help prepare feasible business plans; and (ii) conduct a strategic review of Banco de la Nación, Banco de la Provincia de Buenos Aires, and Banco de la Ciudad de Buenos Aires. The terms of reference are being developed in consultation with the IFIs. Following selection of the international accounting and consulting firms, the work is expected to be completed within a three-month period. Based on recommendations from the international advisors, decisions will be taken on: (i) a time-bound action plan to improve operational performance; (ii) strengthening management; and (iii) the future strategic role of the public banks, including decisions on capitalization through public share issue. Meanwhile, lending by the two largest public banks is being restrained by requiring at least 50 percent cofinancing with a private domestic bank for all loans in excess of Arg$1 million.

- The autonomy of the central bank is to be strengthened through legislation aimed at: (i) allowing the central bank to appoint its own personnel; and (ii) providing budgetary independence to the central bank. This legislation will be submitted to

Congress by the first review of the program and is expected to be approved by the second review.

- The central bank will work with Fund staff to develop a presentation of their financial statements on the basis of international accounting standards with effect from the 2003 financial year.

V. Legal Reform and Corporate Restructuring

30. We recognize the critical importance of restoring domestic and foreign investor confidence in the rule of law and inviolability of contracts. Key measures toward this end have included: (i) the repeal of the "economic subversion" law that was of significant concern to the investor community; and (ii) the reversal of problematic provisions of a February 2002 emergency insolvency law that had eroded creditors' rights in important respects. A provision from the February emergency law that suspended certain creditor enforcement actions was modified and extended for an additional 90 days in August 2002 . This provision expired in November 2002 , following which the Bankers' Association announced a further voluntary extension that will expire in February 2003. At the end of this voluntary extension, the government will ensure that no further steps are taken to involuntarily restrain the enforcement of creditors' rights, and that all provisions of the insolvency law will remain fully in effect. Foreclosure proceedings of nonfinancial creditors in relation to small- and medium-sized companies will be reviewed (by the first program review) in collaboration with IMF staff. Throughout the program period, no statute or other legal instrument will be adopted that provides a means for any involuntary suspension of creditors' rights.

31. The government is also working toward a comprehensive program to support voluntary out-of-court workouts between financially troubled companies and their creditors. The guiding principles in the government's approach are that: (i) no fiscal resources will be made available to guarantee corporate sector exchange rate risk or otherwise subsidize corporate debt servicing or repayment; and (ii) there will be equitable treatment of creditors and debtors. A draft law on corporate workouts is to be submitted to Congress by the first review and is expected to be passed into law by the third review. Designed in consultation with banks and other key stakeholders, this law would: (i) allow a qualified majority of a debtor's creditors to agree to a stay that is binding on all creditors; (ii) encourage the provision of new financing to troubled companies by according a specified priority to such financing; and (iii) encourage parties to enter into restructuring agreements by providing for protection of payments made under such agreements, under certain circumstances, in the event of a subsequent bankruptcy of the debtor. Separate from these provisions (which are available for medium and large companies), the draft law also contains new expedited procedures for smaller companies with liabilities under US$1.2 million which, at the option of the debtor, could include mediation in advance of an accelerated court-supervised restructuring.

32. The success of out-of-court workouts depends ultimately on the strength and predictability of the formal insolvency law. Over the next few months, we will prepare a package of definitive insolvency law amendments directed towards this end that will be readied for submission to Congress by the new government.

Table 12. Argentina: Quantitative Performance Criteria and Indicative Targets, January-June 2003 1/

(In millions of Argentine *pesos*, unless otherwise noted)

	Performance Criteria		Indicative Targets	
	end-Jan.	end-Mar.	end-May	end-Jun.
A. Fiscal Targets				
1. Cumulative primary balance of the federal government (floor)	424	1,500	3,310	4,500
2. Cumulative overall cash balance of the federal government 2/	18	-2,307	-2,708	-2,198
3. Federal government debt stock (ceiling)	515,000	576,000	603,000	612,000
4. Cumulative overall balance of the provincial governments 2/	...	-350	...	-712
5. Consolidated public sector debt stock (ceiling)	583,000	613,000	640,000	650,000
B. Monetary Targets				
6. Stock of net international reserves of the central bank (in US$ millions) (floor)	-3,900	-3,900	-3,900	-3,900
7. Stock of adjusted monctary base 2/	37,250	37,650	37,200	36,400
8. Stock of net domestic assets of the central bank (ceiling)	52,265	52,665	52,215	51,415

1/ As defined in the Technical Memorandum of Understanding.

2/ Indicative targets throughout the program period.

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum presents a detailed definition of the variables included in the quantitative performance criteria and the structural performance criteria and benchmarks for the economic program described in the Memorandum of Economic Policies of the government of Argentina to 2003.[1]

I. FISCAL TARGETS

A. Federal Government

1. Performance criterion on the cumulative primary balance of the federal government

Cumulative primary balance of the Federal Government	Floor (In millions of Arg$)
End-January 2003 (performance criterion)	424
End-March 2003 (performance criterion)	1,500
End-May 2003 (indicative)	3,310
End-June 2003 (indicative)	4,500

The primary balance of the federal government will cover government operations specified in the 2003 budget, and exclude privatization receipts and capital gains on the sale of financial assets. The primary balance of the federal government will be obtained from the accounts "*ahorro-inversión base caja*" published by the *Secretaría de Hacienda*. The primary balance of the federal government will incorporate transfers of realized central bank profits up to a maximum of Arg$575 million in the first half of 2003.

Debt recognition operations not accrued in previous budgets will be considered primary expenditure with the exception of those in points (i) to (iii) in item 3 below, and in point (iv) of item 3 up to the amounts specified therein.

These data will be provided to Fund staff by the *Secretaría de Hacienda* no later than 25 days after the test date.

[1] At the time of the first review of the program the indicative targets for the cumulative primary balance of the federal government, the stock of federal government debt, the stock of the consolidated public sector debt, and central bank net international reserves and net domestic assets will be converted into performance criteria.

2. Indicative target on the cumulative overall cash balance of the federal government

Cumulative cash balance of the Federal Government	Floor (In millions of Arg$)
End-January 2003	+18
End-March 2003	-2,307
End-May 2003	-2,708
End-June 2003	-2,198

The overall balance of the federal government comprises the results of the federal government and the quasi-fiscal balance of the central bank (BCRA). The coverage of the federal government is as specified in item 1 above. Interest excludes capitalization and arrears. The quasi-fiscal balance of the BCRA is defined as interest earnings on gross international reserves, plus interest on government bond holdings of the BCRA, plus net interest (cash) from domestic operations and minus profit transfers to the federal government.

Debt recognition operations will be treated as explained in item 1 above.

The overall balance of the federal government will be measured from below-the-line on the basis of: (i) the information provided by the public sector debt reporting system (SIGADE), including all short-term debt of the federal government; (ii) net asset transactions of the federal government as reported by the *Secretaría de Finanzas*, the *Dirección Nacional de Cuentas Internacionales* (DNCI) and the *Gerencia de Manejo de Reservas Internacionales* of the BCRA; and (iii) information on federal government net bank borrowing and bank deposits provided by the BCRA.

These data will be provided to Fund staff no later than 25 days after the test date.

3. Performance criterion on the stock of federal government debt

Federal Government debt stock	Ceiling (In billions of Arg$)
End-January 2003 (performance criterion)	515
End-March 2003 (performance criterion)	576
End-May 2003 (indicative)	603
End-June 2003 (indicative)	612

The stock of debt corresponds to the definition of the federal government in the 2003 budget. The program debt stock targets incorporate, among other things, the operation of the budget, the effect of inflation on debt indexed to the CER, interest arrears and interest on principal arrears[2],

[2] The latter accumulates at 2 percent plus CER for peso-denominated debt and three-month LIBOR for foreign currency denominated debt.

and the issuance of: (i) compensation bonds to the financial system[3], (ii) debt issued in the *Canje II* deposit-bond exchange (Arg$2 billion, February and Arg$5 billion, May); (iii) provincial government bonds arising from the Phase 1 debt exchange and guaranteed by the federal government (Arg $34.2 billion, February); (iv) debt recognition operations[4]. The estimate of compensation bonds to the financial system will be revised at the time of the first program review.

For purposes of this performance criterion, the term "debt" has the meaning set forth in point No.9 of the Executive Board's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), which includes loans, leases, and suppliers' credits. The term "debt" also includes all obligations guaranteed by the federal government and contingent liabilities arising from derivatives contracts. Only debt actually placed by the test date will be included. Debt denominated in foreign currency will be valued at the market exchange rates prevailing at the test date. The following adjustments to the targets will be made:

a. Upward (downward) for the increase (decrease) in the stock of debt due to deviation of the CER and foreign exchange rates relative to the assumptions in the program (see section IV below).

b. Downward for any privatization proceeds, other asset sales, debt restructuring, by the amount of any debt retired due to "netting" operations involving write-down of central bank liquidity support against bank holdings of government debt, and by the amount of any guaranteed loans retired under the *Canje I*, *Canje II*, *Cobertura* operation.

c. Upward (downward) by any increase (decrease) in the stock of debt resulting from deviations from the assumptions set out in points (i) to (iii) above.

d. Downward by any decrease in the stock of debt resulting from deviations from the assumptions set out in point (iv) above.

e. Upward by the net increase in the stock of debt arising from any reversion of guaranteed loans issued in the Phase 1 debt exchange to their underlying securities.

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[3] These include: (a) the completion of the placement of the compensation bonds for asymmetric *pesoization* (Arg$7.8 billion, February); (b) compensation for asymmetric indexation of assets (Arg$3.8 billion, May); and (c) compensation for losses arising from judicial injunctions (Arg$5.1 billion, May).

[4] These include: (a) *Bocones* (Arg$2.1 billion, spread evenly January–August); (b) other debt recognition operations (Arg$5.6 billion, January).

The data used to monitor debt developments will be taken from SIGADE, including all short-term federal government debt. These data will be provided to Fund staff by the *Secretaría de Finanzas* no later than 25 days after the test date.

B. Provincial Governments

4. **Indicative target on the cumulative balance of the provincial governments.**

Cumulative provincial government balance	Floor (In millions of Arg$)
End-March 2003	-350
End-June 2003	-712

The balance of the provincial governments comprises the consolidated result of the provinces, including the city of Buenos Aires. The result of these jurisdictions will be measured from above-the-line, with expenditure defined on an accrual basis and including all spending that provincial governments pay with bonds (such as salaries paid with *Patacones*) and all interest on bonds issued by the province of Buenos Aires to recapitalize *Banco Provincia (BPBA)*, according to the information provided by the *Secretaría de Hacienda*. These limits will be indicative.

These data will be provided to Fund staff by the *Secretaría de Hacienda* no later than 25 days after the test date.

In addition, the *Secretaría de Hacienda* and the BCRA will provide the following data from below-the-line on the financing flows of the provinces no later than 55 days after the end of the test date. The data will comprise provincial government deposit changes including quasi-monies, issuance of provincial bonds, the issuance of any other form of provincial debt (including debt service arrears), privatization receipts and amortization of provincial debt. The provision of this information to Fund staff within the reporting period is a structural benchmark.

C. Consolidated Public Sector

5. **Performance criterion on the stock of debt of the Consolidated Public Sector (CPS).**

The debt stock of the CPS	Ceiling (In billions of Arg$)
End-January 2003 (performance criterion)	583
End-March 2003 (performance criterion)	613
End-May 2003 (indicative)	640
End-June 2003 (indicative)	650

The stock of debt of the consolidated public sector includes the sum of the debt of the federal government as defined in item 3 above, that of the trust funds and PAMI, and that of the provincial governments, and the city of Buenos Aires, net of intergovernmental debt. All the adjusters specified in item 3 above apply to these targets.

The provision of the data for the provinces, trust funds and PAMI is the responsibility of the *Secretaría de Hacienda*. These data will be provided to Fund staff no later than 25 days after the test date.

II. Monetary Targets

6. Performance criterion on Net International Reserves (NIR) of the BCRA

Net International Reserves	Floor (in millions of U.S. dollars)
End-January 2003 (performance criterion)	-3,900
End-March 2003 (performance criterion)	-3,900
End-May 2003 (indicative)	-3,900
End-June 2003 (indicative)	-3,900

NIR is defined as the difference between gross foreign reserves and liabilities to the IMF. Gross foreign reserves include the BCRA holdings of gold, SDRs, foreign currency in the form of cash, and deposits abroad, government securities of investment grade of OECD countries, and Argentina's net cash balances within the Latin American Trade Clearing System (ALADI). Liabilities to the IMF are valued at US$1.32408 per SDR. Gross and net international reserves will be evaluated at program exchange rates and be measured at the average value over the 10 working days preceding the test date and the 10 working days following the test date.

The NIR floor will be adjusted by the equivalent of net flows in foreign currency to the IFIs from January 1, 2003 that do not affect the liabilities of the central bank.

7. Indicative target on the adjusted Monetary Base of the BCRA

Adjusted Monetary Liabilities	Ceiling (In millions of Arg$)
End-January 2003	37,250
End-March 2003	37,650
End-May 2003	37,200
End-June 2003	36,400

Adjusted Monetary Base of the BCRA comprises the monetary base and the stock of provincial and federal government quasi-monies issued. Monetary base is defined as the sum of currency issue and banking system peso deposits with the central bank. The stock of quasi-monies will be measured at face value at a value of 1:1 to the peso. The monetary base will be measured at the average value over the 10 working days preceding the test date and the 10 working days following the test date.

8. **Performance criterion on adjusted Net Domestic Assets (NDA) of the BCRA**

Net Domestic Assets	Ceiling (in millions of Arg$)
End-January 2003 (performance criterion)	52,265
End-March 2003 (performance criterion)	52,665
End-May 2003 (indicative)	52,215
End-June 2003 (indicative)	51,415

The adjusted net domestic assets (NDA) of the BCRA are defined as the difference between adjusted monetary base and net international reserves (NIR) of the BCRA.

The NDA ceiling will be adjusted by the equivalent of net flows in foreign currency from the IFIs from January 1, 2003 that do not affect the external liabilities of the central bank.

III. Structural Performance Criteria and Benchmarks

9. Continuous performance criteria, structural performance criteria, and structural benchmarks under the program are detailed in Box 1 (Attachment).

IV. Program Accounting Rates

	Jan. 2003	March 2003	May 2003	June 2003
Arg$/US$1 (e.o.p)	3.85	3.85	3.85	3.85
US$/SDR (e.o.p.)	1.32408	1.32408	1.32408	1.32408
US$/Euro	1.02	1.02	1.02	1.02
US$/CAD$	1.58	1.58	1.58	1.58
US$/JPY	121.63	121.63	121.63	121.63
US$/CHF	1.48	1.48	1.48	1.48
US$/GBP	0.64	0.64	0.64	0.64
CER coefficient (e.o.p.)	1.47	1.59	1.68	1.73

Any variable that is mentioned herein for the purpose of monitoring a performance criterion or indicative target and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Financial Statistics. For variables that are omitted from the TMU but that are relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment based on the Fund's standard statistical methodology and program purposes.

Press Release No. 03/09
FOR IMMEDIATE RELEASE
January 24, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Transitional Stand-By Credit Support for Argentina

The Executive Board of the International Monetary Fund (IMF) approved today an eight-month, SDR 2.17 billion (about US$2.98 billion) Stand-by Credit Arrangement for Argentina that is designed to provide transitional financial support through the period ending August 31, 2003, and which replaces Argentina's previous arrangement with the Fund (see Press Releases No. 01/37, No. 01/3 and No. 00/17). This arrangement is designed to cover all payment obligations to the IMF through August 2003.

In addition to approval of the credit arrangement, the Executive Board approved the authorities' request to extend by one year SDR 2.77 billion (about US$3.80 billion) in payments Argentina would have been expected to make during the first eight months of 2003. This extension would cover Argentina's remaining payment under the Supplemental Reserve Facility (SRF) of SDR 2.09 billion (about US$2.87 billion) and payments of SDR 683.65 million under the previous Stand-by arrangement (about US$938.20 million). This extension is allowed under the Fund's general policies governing such payment expectations, including policies under the SRF, which states that an extension can be granted if repayment would cause undue hardship and provided the borrower is taking actions to strengthen its balance of payments. At the end of the extension the country is obligated to repay the SRF financing.

The combined actions of the Executive Board affect SDR 4.94 billion (about US$6.78 billion) in payment obligations or expectations in the period January-August 2003. These actions were taken with the expectation that the transitional stand-by credit will be succeeded by a multi-year IMF arrangement after the election in late April 2003 of a new government, and that the subsequent medium-term program will anchor support by the international financial institutions for more comprehensive economic reforms in Argentina.

Argentina has cleared its arrears to the World Bank and the Inter American Development Bank, enabling these institutions to resume their support.

Following the 24-member Executive Board's discussion of Argentina, Mr. Horst Köhler, Managing Director and Chairman of the Board, stated:

"The IMF Executive Board has approved the Argentine authorities' requests for a Stand-By Arrangement and the extension of repurchase expectations arising during the period of the arrangement through August 2003. These requests were approved in the context of a short-term economic program that seeks to preserve macroeconomic stability through the transition to a new government that is expected to take office in May. In addition, the program provides a framework for the multilateral development banks to resume their support of social programs following Argentina's recent clearance of arrears to them.

"The transitional program is focused on maintaining monetary and fiscal discipline, avoiding policy reversals, and rebuilding legal certainty. Its implementation will be monitored closely by the authorities and the IMF. The monetary program envisages that monetary policy will provide an anchor for inflation expectations, while the fiscal program calls for firm control over primary expenditures at the federal and provincial levels. The authorities intend to work closely with the Congress to secure approval of the revenue measures needed to meet the fiscal targets. The program provides for a strong social safety net that is being implemented in collaboration with the World Bank and the IDB. To prepare the ground for the successor government, the authorities will formulate the needed fiscal structural reforms to broaden the tax base, improve tax administration, and reform intergovernmental relations to help deliver medium-term fiscal sustainability.

"The program contains steps towards a banking strategy. The regulatory and prudential framework is being strengthened, the reform of the public banks will be initiated, and central bank autonomy increased. Another key aspect of the program is the commitment to enhance collaboration with private creditors on a debt restructuring strategy, which should gain momentum following the early appointment of a debt advisor.

"The transitional program is viewed as a step to a comprehensive medium term program which is needed to re-establish investor confidence and capital inflows, achieve fiscal and external viability, and establish sustainable growth in Argentina. Such a program would need to carry forward fundamental reforms in many areas. These include structural fiscal reforms to raise substantially the consolidated primary fiscal surplus of the federal government and the provinces over the medium term, increase the openness of the economy, restore financial intermediation, complete the process of debt restructuring, and assure legal certainty and respect for the rule of law. Regarding the agenda ahead is, therefore, necessarily ambitious, and Executive Directors emphasized that the key to a durable improvement in the economic situation lies in the actions that Argentina takes itself," Mr. Köhler stated.

ANNEX

Program Summary

The Argentine authorities view the transitional program as a step to a comprehensive program required to restore fiscal and external viability. By maintaining macroeconomic stability during the presidential election period, the authorities hope the program will create conditions that will facilitate a successor government, which is expected to take office in late May, to adopt a comprehensive medium-term economic program.

The transitional program is focused on **monetary and fiscal policies**, and steps towards banking reform, during the first half of 2003. The monetary program seeks to restrain monetary growth so as to establish a nominal anchor and to avoid inflationary pressure. The program is centered around maintaining the adjusted monetary base broadly at its end-December 2002 level through mid-2003. Operationally, the authorities will seek to control the monetary base by acting on net domestic assets of the central bank and limiting sales of foreign exchange reserves for intervention, within the framework of a continued flexible exchange rate policy. The **monetary program** would be reviewed regularly and the authorities have committed to adopt corrective measures as necessary.

The **fiscal program** seeks to secure a consolidated cash **primary surplus** of about 2.5 percent of GDP in 2003. In order to reach the primary surplus target and for the fiscal gap to be consistent with the monetary program, a number of spending cuts, revenue measures and the elimination of certain tax exemptions will need to be approved by Congress by end-March 2003. Provincial adjustment is being achieved through spending controls and administrative reforms and is to be underpinned by the bilateral agreements for 2003 that are planned to be ratified by provincial legislatures by mid-May 2003.

The authorities intend to complement core monetary and fiscal policies with a number of **structural measures** aimed at paving the way to a more comprehensive approach under a successor program. The implementation of the initial strategy includes institutional and legal reforms to strengthen the framework for banking sector restructuring, including preliminary steps toward reform of public banks, revisions to prudential regulations, and measures to enhance the autonomy of the central bank. Other measures include tax reform aimed at broadening the tax base, and the reform of intergovernmental relations to encourage fiscal discipline in the provinces.

The Argentine authorities have committed to remain current on the government's financial obligations to the IMF under the program.

Argentina joined the IMF on September 20, 1956. Its quota [1] is SDR 2.117 billion (about US$2.905 billion). Its outstanding use of IMF credit currently totals SDR 9.747 billion (about US$13.376 billion).

[1] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

Statement by Guillermo Zoccali on Behalf of His Argentine Authorities
January 24, 2003

Overview

1. At the outset, I wish to express on behalf of my Argentine authorities their appreciation for the substantial efforts of the Fund to provide support for a policy framework that lays the basis for a durable solution to the unprecedented hardship faced by the Argentine people. This reality has signified a formidable challenge for Argentine society and institutions, as the development of such a framework has had to reconcile the strengthening of macro-economic discipline with the responsibility of mitigating the costs of the crisis for a large vulnerable segment of the population under heightened conditions of social instability. The improving economic situation since last June, the vocation of Argentina to remain a full member of the international community, and the signal of support for its transitional economic program provide a good basis for developing the more comprehensive, medium-term reform strategy needed, under a successor administration, to support an improved investment environment and the prospects for sustained growth.

2. In weighing the balance of risks associated with my authorities' request for a Fund-supported transitional program, it is important to dispel the notion that international support at this juncture is either counterproductive for Argentina or self-serving for the international financial institutions. In the aftermath of a multi-faceted crisis, such as the one from which Argentina is beginning to emerge, adopting a hedged view of the risks involved may be the logical response. Nonetheless, while market participants should be expected to act consistently with their self-interest, the Fund's role should remain catalytic in the broadest sense to contribute to both increasing domestic cohesion in support of program implementation and as a signal of approval of the member's policies to help rebuild market confidence. My authorities are grateful to the Managing Director for his decision to recommend to the Executive Board the approval of this arrangement. They consider the objectives of this program ambitious and the accompanying macro and structural conditionality demanding, given the context of a cumulative output decline exceeding 20 percent in the last four years and the current phase of recovery of economic activity. Despite the transitional character of their administration, my authorities assume full ownership over the policy commitments and are intent on using this opportunity to achieve an orderly evolution towards the medium-term reform effort that needs to follow.

3. The perception that the lack of new money underpinning the arrangement may be an indication that the program is weak adds to the challenge of successful implementation, in the circumstances that Argentina finds itself, i.e., cut-off from access to new market and official financing, including after sizable net payments to the IFIs in 2002. My authorities have transparently laid out the difficulties they faced, as well as their vocation to act responsibly. By maintaining a relatively tight fiscal stance that took pressure off monetary policy, economic and financial conditions stabilized, contributing to strengthening the incipient recovery of the last six months. Such results in the economic and also the social spheres should serve to enhance the credibility of the arrangement for which support is being

requested. Additionally, in order to advance the process for a debt restructuring and build on the constructive dialogue initiated with private creditors, my authorities have announced yesterday a short-list, of three institutions, among those bidding for the designation of external financial advisor. Their final selection is predicated on the opening and evaluation of the respecting pricing proposals, and is expected to be concluded by end-January. The greater certainty and predictability associated with a formal Fund program affords improved prospects that the gains thus far may be preserved in the run up to presidential elections and a new administration next May.

Risks to the Program

4. Too optimistic **GDP growth projections** and associated overambitious fiscal targets have been singled out by the IEO as important reasons for unsuccessful implementation of Fund-supported programs in the past. The macro-economic framework of this Argentine arrangement assumes a conservative real GDP growth rate for 2003 of 2/3 percent compared to a decline, based on preliminary data, of some 10.2 percent in 2002. The latter contrasts with widely publicized growth estimates, including in last September's WEO of minus 16 percent, highlighting the marked improvement during the last quarter. As I indicated in my buff statement of January 7 for the Article IV consultation with Argentina, evidence in this area remains encouraging. Available data for QIV of 2002 points to the third consecutive quarter of GDP growth, signaling that the recession may be over and, as importantly, a positive carry-over into 2003 of some two percent. Indicators of industrial production tend to confirm this trend with a QIV/QIII growth rate of 3.7 percent on a seasonally adjusted basis. The authorities' most recent estimate raises real GDP growth for this year to 3.6 percent.

5. The recovery has not relied exclusively on export-oriented or import substitution industries, although these are certainly significant contributors. Notwithstanding the marked fall in real wages and the still very high level of unemployment, recent job creation figures merit some attention since they point to a rise in employment during the period April/December of last year of 861,000 jobs. The fact that some 60 percent of these stem from public programs, most prominently the Unemployed Heads of Households Program, does not detract from its support to consumption, which is still weak. On balance, my authorities consider that the real GDP growth projection underpinning the financial programming is appropriately cautious.

6. The most important concern at the beginning of 2002, that **hyperinflation** or very high inflation was very likely, did not materialize. The self-fulfilling dynamics early last year of a very sharp depreciation of the peso feeding inflation and, in turn, a further round of downward pressure on the exchange rate was stabilized. This was achieved through a deliberate effort to curtail the public sector deficit and its monetization, some intervention in the foreign exchange market to quell excessive volatility and, in the circumstances of lack of access to credit and a heretofore completely open capital account, the imposition of exchange controls extending to rents and utility rates. Quite clearly this policy mix was not my authorities' preferred course of action, but rather one dictated by the constraints and the seriousness of the inflationary event had it occurred. Although average consumer price

inflation in 2002 was 25.9 percent, this contrasts with the 210 percent average increase in the value of the US dollar in relation to the peso in the same period; a noteworthy development given the traditional weight assigned to the nominal exchange rate in the formation of inflation expectations in Argentina.

7. The effectiveness of the policy mix in not convalidating underlying inflationary pressures last year is reflected, particularly, in the much lower rate of inflation of the fourth quarter, of 7 percent in annual terms. This development serves to put in perspective the prospects of maintaining inflation in 2003 within the range of 22/35 percent. It also suggests some room to accommodate moderate adjustments, in particular in the rates of the privatized service utilities while a generalized review of their regulatory framework is advanced. In this regard, an emergency presidential decree clearing the way for partial utility price adjustments was signed today. In addition, the high level of unused and relatively modernized productive capacity and the persistent unemployment constrain the pressures for wage and price indexation as domestic demand conditions improve. This, in turn, serves to mitigate the potential impact of adjustments in housing rental contracts, which have remained frozen during most of 2002 and which constitute one of the limited prices in the economy subject to indexation, to wage and salary increases.

8. The stabilization of **foreign exchange and financial market conditions** and the declining trend in inflation since the middle of last year was used by my authorities to advance the schedule of liberalization of frozen sight and time deposits, which now account for less than one-third of total deposits in the banking system. These had, nevertheless, been exerting a dampening impact on confidence and on the perception of sustainability of the macroeconomic framework in place. It should be kept in mind that generally domestic depositors were surprised by the crisis, as the Argentine banking system had been considered to be one of the most liquid and solvent in the region. In some sense, despite the deception that followed, domestic depositors continue to believe that the banking system has the potential to recover its soundness. This, together with improving financial conditions, may serve to explain why, notwithstanding the initial freeze of deposits and the subsequent "amparo" problem, permissible margins were only partially drawn and deposits edged upwards. The fact that depositors have chosen to remain in the banking system and that economic activity is leaving the recession behind presents the authorities with the opportunity for an orderly sequencing of the lifting of foreign exchange restrictions in response to appreciation pressures and, as significantly, serves to raise a legitimate doubt about the robustness of **the monetary overhang** concept that has figured prominently in the program discussions in recent months. This more favorable dynamic could also serve to allay the lingering concerns regarding the risks that could still be attributable to the scheduled liberalization of reprogrammed time deposits in 2003. As I noted in more detail in my buff of January 7, while in May of last year time deposits to be released in 2003 represented 130 percent of the monetary base and 57 percent of gross international reserves, these now represent around 20 percent of the monetary base and less than 17 percent of the stock of reserves. These developments should serve to put in better perspective the attainment of the monetary targets and the perceived weakness in some quarters of the requested arrangement. My authorities remain of the view that notwithstanding its risks, the successful

implementation of a Fund-supported program, accompanied by appropriate signaling, can serve to enhance predictability and firm up expectations of continued macro-economic stability in Argentina.

9. This introduction is germane to the reference in paragraph 5 of EBS/03/5 that the monetary program is centered around maintaining the monetary base at its end-December 2002 level through mid-2003. More specifically, however, **the monetary program** is anchored by the net domestic assets (NDA) and net international reserves (NIR) targets. As the quantitative performance criteria in the program, these provide room for money base creation of external origin. Recognizing the heightened difficulty of estimating the demand for money in the current circumstances, my authorities are committed to a prudent base money expansion path and have built in, as added safeguards, the reassessment of the monetary targets in light of actual developments at the time of each program review. The continued strengthening of money demand is pivotal for the successful implementation of the program. Nonetheless, its recent favorable evolution suggests that even substantial increases of the monetary base could be absorbed without rekindling inflationary expectations. In this context, Fund support for the policy environment could be an important affirming factor and, as a minimum, serve to avert a negative shock to domestic market expectations. The close monitoring of monetary developments built into the program design offers safeguards both to avoiding a monetary event and to aborting the recovery through premature liquidity tightening, after more than four years of recession and the evidence of a still high liquidity premium in the economy. In any event, my authorities have expressed a firm intention of avoiding monetization of fiscal imbalances or a lending spree by public banks, which are now subject to tightened prudential and operational guidelines.

10. Another aspect that gives consistency to the monetary policy stance, in addition to the central bank's stated intention to keep interest rates as high as needed to maintain orderly market conditions, is the public's growing acceptance of central bank bills (LEBACs) as an investment alternative. This is confirmed by the progressive lengthening of maturities and the continued decline in interest rates. The latest placement of one-year bills, at an interest rate of 41 percent, points to the fine balance to reconcile increased investor confidence with a still high risk premium.

11. As staff rightly argue, monetary policy does not operate in a vacuum and the need for a strategy to reestablish the **soundness of the banking system** is fully recognized by my authorities. In this regard, it is important to keep in mind that the initial wave of requests for central bank liquidity support ended some six months ago and, more recently, has given way to a reduction in the stock of rediscounts. This points to an improved liquidity situation in the banking system, as well as to the initial steps taken to strengthen the supervisory and prudential framework. Additionally, paragraph 29 of the authorities' Memorandum of Economic Policy outlines the actions being adopted and envisaged during the program to advance a full-fledged restructuring of the banking system to enable it to fulfill its intermediation role efficiently.

12. The government has issued bonds to recapitalize commercial banks for the asymmetric pesoification of loans and deposits and has expressed the intention to similarly address the costs attributable both to the asymmetric indexation and the judicial injunctions or "amparos". Regarding the uncertainty surrounding the pending decision of the Supreme Court, my authorities are confident that, in substance, this potential problem has been materially reduced. At the same time, it is their expectation that any decision in this domain will duly take into account the macro and micro-economic consequences and the need to safeguard stability.

13. It is generally agreed that one of the main reasons for the Argentine crisis has been a relatively weak fiscal performance. Similarly, **the fiscal situation** visibly worsened immediately after the crisis and remains fragile despite primary surpluses in the last eight months. Public debt as a percentage of GDP has more than doubled and its future servicing presents a formidable challenge in the medium-term even after a successful restructuring. My authorities recognize that a sustainable and strong fiscal performance should rest on sound incentives for fiscal discipline and a consistent tax administration, at both the national and sub-national levels. Among the measures adopted to advance this objective, it is worth noting: the increased monitoring of tax compliance covering some 1.2 million taxpayers, the legislation prohibiting future tax amnesties, the normalization of VAT reimbursements to exporters as well as of the floating debt owed the provinces, and the use of a unified data base by the tax authorities of the national government and of the major provinces, Buenos Aires, Santa Fe, Córdoba, Mendoza and San Luis. In addition, my authorities have expressed a firm commitment to initiate the work for key legislation related to needed structural fiscal reforms, with the technical assistance of the IMF and the World Bank. This would cover a comprehensive revamping of the tax system, to broaden the base, reduce distortions, improve enforcement and foster compliance, as well as a reform of intergovernmental relations, in particular the revenue-sharing scheme for primary and secondary distribution, to simplify the former and link the latter more closely to the revenue capacity and expenditure needs of each province. Nurturing the recovery at this stage of the cycle is as important as heeding the call for fiscal prudence when the economy performs well. The Argentine experience offers useful lessons to be kept in mind as preparations advance for the development of a medium-term fiscal scenario.

14. The 2003 Budget Law approved by the Congress already contains important revenue and expenditure measures to reconcile the need to strengthen the primary fiscal balance with the objective of avoiding a relapse into recession. The current stance, which although still contractive in cyclically adjusted terms, lays the basis for initiating the process of negotiation on a debt restructuring with private creditors. The normalization of this relationship is considered essential for Argentina's eventual return to international financial markets, and in particular for the vigorous access to export and investment credit that is needed to take advantage of the more competitive exchange rate to consolidate the growth momentum.

15. Revenue enhancement as well as expenditure restraint characterize the present fiscal outlook mentioned in paragraph 11 of the staff report. Among the new revenue measures, suffice it to note that the VAT rate was increased to 21 percent on January 17, after the

lowering to 19 percent that applied briefly to support the fledgling recovery in the fourth quarter of last year. This was in accordance with the decree authorizing the reduction and the commitment under the program. More specifically concerning the risks to the fiscal outlook, my authorities are confident of the approval by the Congress in extraordinary sessions, next February, of the measures mentioned in paragraph 11 of the staff report. The elimination of the remaining competitiveness plans and of the associated exemptions to the minimum income and value-added taxes have already been approved by the House of Representatives. With respect to the congressional spending initiatives, i.e., bonus for teachers and child nutrition programs, their financing is envisaged by way of a reallocation of appropriations within the budget. My authorities consider that even an eventual delay in the approval of pending revenue measures, representing less than 0.7 percent of total budgetary revenue, would not represent a serious risk for the achievement of the fiscal targets under the program.

16. Regarding the potential for slippages in the **provincial finances,** the bilateral agreements in place contemplate balanced provincial budgets in 2003 and the ending of the issuance of provincial quasi-currencies. This follows a sustained process of provincial fiscal retrenchment fostered by the abolishment of the floor on federal transfers, which included spending and administrative controls, new reporting requirements and penalties for non-compliance, that are particularly relevant as Argentina is normalizing its past due payment obligations to the multilateral development banks. The onus of implementation by the provinces is now clearly more demanding as the expectation of recovery of a portion of the net payments made to the IFIs in the course of 2002, amounting to over four billion dollars, to facilitate the orderly financing of provincial fiscal deficits and to help retire the stock of quasi-monies, has not materialized. Nonetheless, in assuming responsibility for the servicing of provincial debts amounting to Arg.$ 24 billion, the federal government has indicated its firm intention of using all available means to foster compliance of the agreements reached with the provincial governors.

Conclusion

17. Making the current financial stability and recovery durable is, in the view of my authorities, essential to affirm a favorable climate for investment, growth, and poverty alleviation. They are confident that the macro-economic framework contained in the program negotiated with Fund staff has the elements to enhance the credibility of their policies, particularly after it is made known consistent with their commitment to transparency. The program is fully owned and affords new predictability to the process of restructuring the banking system, the debt negotiation with private and official external creditors, and the effort to reinstate fully the rule of law and the respect for contracts following Argentina's unprecedented crises. Fund support for the transitional Stand-By Arrangement requested by my authorities is important to foster a widespread and orderly consensus for a medium-term adjustment and reform effort that can deliver the durable growth and improved living conditions that the Argentine population aspires.